

Exhibit No.: _____
Issues: Development of Service
Level Agreements
Witness: Charles H. Tickle
Type of Exhibit: Direct Testimony
Sponsoring Party: KCPL
Case No.: EM-2000-753
Date Testimony Prepared: December 14, 2000

FILED

DEC 14 2000

Missouri Public
Service Commission

Direct Testimony
of
Charles H. Tickle
On Behalf of
Kansas City Power & Light Company

**DIRECT TESTIMONY
OF
CHARLES H. TICKLES
Senior Director – Information Technology
Kansas City Power & Light Company**

Case No. EM-2000-753

1 Q. **PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

2 A. My name is Charles H. Tickles. I serve as Senior Director of Information
3 Technology for Kansas City Power & Light Company. My business address is
4 1201 Walnut Street, Kansas City, Missouri 64106.

5 Q. **ON WHOSE BEHALF ARE YOU TESTIFYING?**

6 A. I am testifying on behalf of KCPL.

7 Q. **PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE AND
8 EDUCATIONAL BACKGROUND.**

9 A. I am a senior manager with 20 years of experience in the electric utility industry.
10 In my current position, I oversee KCPL's Information Technology departments
11 including Customer and Enterprise Information Systems Application development
12 and maintenance, Technical Infrastructure, Client Assistance Center,
13 Telecommunications and a Graphic Technology Support group. I earned a BS in
14 Mechanical Engineering from the University of Kansas in 1980. I joined KCPL as
15 a Maintenance Engineer in System Power Operations immediately after
16 completing my degree. I was promoted to Superintendent of Computer
17 Applications in System Power in 1984. In 1988, I was promoted to Manager of
18 Computer Systems in the Power Supply Division. In 1994, KCPL centralized

1 Information Systems development and I was named Manager of Application
2 Development in the Information Technology Department. In 1996, I was
3 promoted to Director of Information Systems. I was promoted to my current
4 position this year.

5 Q. **WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. I will provide testimony of how KCPL investigated and undertook the
8 development of service level agreements (SLAs) as a supporting business
9 practice of the Shared Services organization for KCPL.

10 Q. **PLEASE DESCRIBE THE INTERNAL PROCESS KCPL USED TO DEVELOP**
11 **ITS SERVICE LEVEL AGREEMENT STRUCTURE.**

12 A. In 1999, as part of an internal study to determine whether to separate KCPL's
13 current vertically integrated business structure into separate business units, an
14 executive committee was established to examine the feasibility and value of
15 forming a Shared Services organization. Part of this initial investigation was to
16 review the role and governance by which a Shared Services organization
17 supported independent business units, while ensuring the overall corporate
18 values and business practices were adhered to. What we found was that the
19 service level agreement (SLA) served as the mutual agreement between the
20 service provider and the business unit service consumer.

21 Q. **AFTER THE MERGER WITH WESTERN RESOURCES WAS CANCELED, DID**
22 **KCPL CONTINUE TO INVESTIGATE THE ROLE AND PROCESS OF**

1 DEVELOPING AND IMPLEMENTING SLAs AS PART OF A SHARED
2 SERVICES ORGANIZATION?

3 A. After KCPL announced its intention to reorganize the company, several
4 restructuring groups were formed led by KCPL's officers. The Infrastructure and
5 Services Group was given the responsibility for defining the Shared Services
6 structure and basic processes. Under the guidance of this group, a team was
7 formed to define the SLA structure for KCPL.

8 Q. **WHAT ROLE DID YOU HAVE IN THIS TEAM?**

9 A. I was named chairman of the SLA team and given the responsibility of
10 developing an SLA template for the Shared Services organization to use.

11 Q. **WHO WAS ON THIS TEAM?**

12 A. The SLA team was made up of senior level managers and senior staff
13 professionals from the various proposed business units and service
14 organizations including representatives from Power Generation, Customer
15 Services, Marketing, Human Resources, Accounting, Legal, Regulatory,
16 Transmission Services, and Power Marketing.

17 Q. **PLEASE DESCRIBE THE SLA TEAM'S PROCESS FOR INVESTIGATING**
18 **AND DEVELOPING THE MODEL SLA.**

19 A. The team reviewed sample SLAs from other utilities and non-utilities. Literature
20 on SLAs and Shared Services organizations were reviewed as well as a review
21 of KCPL's current accounting practices of business unit charging.

22 Q. **DID THE SLA TEAM DEVELOP AN SLA TEMPLATE AND**
23 **RECOMMENDATION FOR ACCOUNTING PRACTICES?**

1 A. The team recommended an SLA model template (Schedule CHT-1) that would
2 be used to ensure consistency across all the Shared Services functions and the
3 business units. From an accounting perspective, the team recommended that
4 the SLA process adopt the current accounting cost assignment methods that
5 existed within KCPL's PeopleSoft Accounting System.

6 Q. **HOW IS THE SLA APPROACH DIFFERENT FROM KCPL'S PAST**
7 **PRACTICES FOR ASSIGNING COST TO THE BUSINESS UNITS?**

8 A. The Unit of Service (UOS) methodology was used by KCPL during the past two
9 years. It was an accounting process of assigning cost to the business units for
10 high-volume/low-cost transactions when it was not practical to direct bill the
11 business units for these activities. The new SLA model agreement outline
12 includes the accounting methods that will be used to assign the cost to the
13 business units. In addition, the new SLAs include:

- 14 • the methods by which a business unit requests services from a provider;
- 15 • a description of the performance measures used to ensure adequate delivery
16 of the requested services;
- 17 • a description of the actions a business unit can take to lower its service
18 costs;
- 19 • a problem management process;
- 20 • a reporting process;
- 21 • provision for an annual cost reconciliation process to ensure that the Shared
22 Services organization has no loss or profits as a result of the SLAs.

1 The SLA document also sets the stage for moving to both market-based
2 services and pricing in the future.

3 Q. **PLEASE DESCRIBE KCPL'S OVERALL GOALS FOR SLAs.**

4 A. The goal of an SLA is to improve communication and understanding between the
5 business units and the Shared Service provider concerning the services they
6 receive and the cost of those services. An SLA should allow the business units
7 to make choices that help them manage their costs. The SLA needs to be
8 customer-focused to lower costs and make more options for services available to
9 the business units. The SLA should also ensure accountability for delivery of
10 services at agreed upon service levels and costs.

11 Q. **WHAT WERE THE GENERAL GUIDELINES FROM WHICH THE SLA TEAM**
12 **DEVELOPED ITS RECOMMENDATION?**

13 A. The initial SLAs are to be used to improve communications and cost-service
14 relationships between the business units and the service providers. Therefore,
15 the SLA team was requested to keep the SLAs basic in form and content for the
16 first year. The SLA format was to be short, easily understood and functional. It
17 was to utilize effective ways to charge for services. SLAs were to be established
18 and reviewed annually. They were to be used when a business unit had the
19 ability to affect its costs by changing consumption patterns. The number of SLAs
20 initially was to be kept to a minimum. They were to be signed by the highest
21 level officer within each business unit and service provider.

22 Q. **WHAT ARE THE ACCOUNTING METHODS THAT WILL BE USED IN THE**
23 **SLAs BY THE SHARED SERVICES PROVIDERS?**

1 A. An SLA can utilize any or all of the four following accounting methods.

- 2 1. Direct Bill Actual Costs - (example: charging time on a time ticket direct to a
- 3 business unit project)
- 4 2. Unit of Service (UOS) - (example: payroll-processing services charged to the
- 5 business unit based on an employee count)
- 6 3. Clearing and Loading - (example: fringe benefits associated with labor costs)
- 7 4. Specific Assignment - (example: rent charges to the business unit occupying
- 8 the space)
- 9 5. Corporate Allocations - (example: Corporate Secretary, Audit, Shareholder
- 10 Relations).
- 11

12 The first four methods are discussed in more detail by KCPL witness Christine

13 Davidson in her testimony. Corporate Allocations are discussed in more detail by

14 KCPL witness Ruth Ann Dane.

15 Q. **WILL THE USE OF SLAs REQUIRE THE SHARED SERVICES PROVIDERS**
16 **TO CHANGE THEIR ACCOUNTING PRACTICES?**

17 A. With the SLAs, the Shared Service providers are encouraged to use either direct
18 billed or specific assignment whenever possible. This is to ensure that all
19 charges are incurred by the business unit responsible for the activity. With both
20 direct-billed and specific-assigned methods, it is very easy for the business units
21 to track and audit the charges from the Shared Services providers. In addition,
22 these two methods are the most closely aligned with a market-based accounting
23 structure.

24 Q. **WERE OTHER ACCOUNTING OPTIONS CONSIDERED BY THE SLA TEAM?**

25 A. Yes, the team looked at four different options:

- 26 • Moving directly to market-based pricing for all services
- 27 • Fixed pricing based on historical usage of services
- 28 • Keeping the existing accounting methods, and
- 29 • A hybrid of market and actual costs.
- 30

31 We decided to continue with our existing accounting methods.

1

2 Q. **WHEN WILL THE SLAs BE IMPLEMENTED?**

3 A. The implementation and administration of SLAs is addressed in the testimony of

4 KCPL witness Joseph Jacobs.

5 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes.

AFFIDAVIT

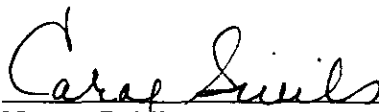
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

On the 6th day of December, 2000, before me appeared Charles H. Tickle, to me personally known, who, being by me first duly sworn, states that he is the Senior Director of Information Technology for Kansas City Power & Light Company, and that he has participated in the preparation of the foregoing written testimony, in question and answer form, and believes that the statements therein are true and correct to the best of his knowledge, information and belief.



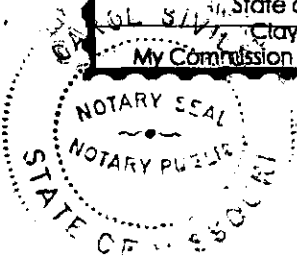
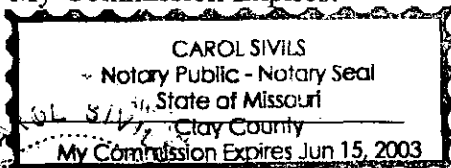
CHARLES H. TICKLES

Subscribed and sworn to before me this 6th day of December, 2000.



Notary Public

My Commission Expires:



MASTER
Service Level Agreement
between
Business Unit
and
Shared Services

PREPARED BY:

Name
Title

Name
Title

Date: _____

Date: _____

APPROVED AND OWNED BY:

Name
Vice President, (Customer)

Name
Vice President, (Service Provider)

REVIEWED BY:

Legal

Regulatory

Oversight Committee

CONTENTS

- A. Purpose and Objective
 - Scope
- B. Description of Services
- C. SLA Addendum
- D. Service Levels
 - Service Provider Responsibilities
 - Business Unit Responsibilities
- E. Performance Measures
- F. Problem Management
 - 1. Problem Notification Procedures
 - 2. SLA Contact Persons & Positions
 - 3. SLA Change Process
- G. Pricing Structure and frequency of cost driver update
- H. Reporting Requirements
- I. Cost Control Drivers
- J. Oversight and Review Process
- K. Cost Reconciliation Process
- L. Related Documents
 - 1. SLA Assumptions
 - 2. Related Contract
 - 3. How market rates will be determined

A. Purpose, Objective and Scope

This section is used to describe the general services that are typically provided by the service provider. It should include a description of the objectives of the services the business unit is contracting for. This section should also provide the reader with a high level summary of the different services that are described in either the body of this document or its addendums. Any noteworthy exceptions that the reader might otherwise assume should be included here. If the service can be provided by utilizing outside resources, that should be indicated in this section. The duration of the agreement and a best-guess cost should be described also. If there are any known-predicted changes by either service provider or business unit that would impact this agreement, those could be defined here also.

- **Scope:** The agreement should describe the physical locations or vicinities where these services will be provided. Any services that the service provider typically provides to others, but are specifically excluded in this agreement should also be defined here. Any services that are specifically out of scope for one or more physical location should be highlighted here also.

B. Description of Services

If this agreement is self-contained, then this should include a description of what services are covered within this agreement. If SLA addendums are used to define the specific services used to support this agreement, the description should be a summary of those addendums. Any specific systems, processes, or departments should be described here also.

C. SLA Addendums

A listing of the SLA addendums, their general title/description, who developed them, latest revision date and whom within the business unit approved the acceptance of those service components.

An SLA addendum would follow the basic SLA outline using only the sections that would be necessary and not included in the MASTER SLA.

D. Service Levels – Responsibilities

- **Service provider responsibilities:** An overview of the responsibilities of the service provider should be described here. These would include items such as project scheduling, cost projection, variance reporting, staffing commitments, legal or contractor responsibilities. This could also include items that are provided that could be considered corporate or infrastructure sustaining activities

that would not be covered directly as part of a specific service or addendum. This could include ensuring adequate technical expertise is available or examples of situations where services would be curtailed or altered such as during a storm.

- **Business Unit Responsibilities:** This section should include any specific activities or requirements that would be placed on the business unit personnel or resources to deliver these services. These could include such items as security access to the business unit facilities, a screening process or person for SLA problems, or any underlying assumptions that the business unit needs to be made aware of to ensure adequate delivery of services. This also includes any work activities that the business unit must undertake to receive this service such as specific data entry for others, specialized license requirements or required training to utilize service.

E. Performance Measures

This section should describe the performance measures that the overall SLA is dependent upon based on timeliness, accuracy and quality. This section should also summarize any performance measures used within the SLA addendums to support the individual service products. If there are any penalties associated with either service provider or business unit, they should be defined here.

F. Problem Management

This section should describe the overall problem management and escalation process available to the business unit and service provider. This should include both service level issues and billing issues in dispute.

A change process for modifying either the overall SLA and addendums should be included. This includes how changes can be made in service products, levels, costs or processes not assumed to be part of the current agreement.

This section should also describe how new services or addendums could be added or deleted to this agreement throughout the term of this agreement.

This section should also describe whose responsibilities it is to maintain/change this agreement to ensure it is supporting the needs of the business unit and the service provider.

The SLA and addendum contact personnel on both the service provider and business unit side should be identified.

G. Pricing Structure – Cost-driver Updates

This section should define the cost mechanisms in use by this overall SLA and list the various cost mechanisms in use within each service level addendum.

This section should also describe, in generic terms, the types of cost the service provider takes on behalf of the business unit and what approval process will be used between the service provider and the business units associated with these costs.

If there are any special provisions or policies required for the support of these costs, they should be outlined here and included as related documents if available.

If the service level agreements or addendums are based on a specific cost driver (i.e., number of PCs and employees), then the frequency of that driver update should be defined here also.

H. Reporting Requirements

Any SLA or addendum report that will be published to support the service provider and business unit in the management of the SLA should be defined here along with the area responsible for the collection and distribution of these reports. This should include but not be limited to the cost allocation reports, and reports tracking consumed items – i.e. labor hours, number of PCs, number of employees, etc, any reports that define the performance measurements and level of compliance.

These can also include issues that could trigger a need for a variance report that would need review and acceptance by both parties.

I. Cost Control Drivers – Business Unit Influence

This section should help the business unit and service provider understand what activities or actions that the business unit can take to lower or control costs within this SLA. If changes in consumption by the business unit have limited or no impact on the SLA costs, then these should be spelled out also. If there are specific activities or duties that the business unit or service provider can assume that would result in lower costs, these should be defined also.

J. Oversight and Review Process

The process and the responsibilities of each party for SLA oversight and periodic review should be defined in this section. If these are time-sensitive activities that impact the SLA, then these should be defined here.

K. Cost Reconciliation Process

The accounting process and frequency used to balance service provider cost and business unit consumption should be described here. Any mechanism for rebates or charges incurred by the business unit outside of the SLA process should be disclosed here.

L. Related Documents (minimum of these three)

1. SLA Assumptions
Any assumptions used to develop the SLA not previously outlined in the SLA as addendums.
2. Related Contracts
Any related contracts that the SLA would be responsible for in the provisions of services for the business unit.
3. How Market Rate will be determined
A description of how the service provider – business unit – will determine market rates for benchmarking purposes.