

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DOCKET NO. DE 16-383

**IN THE MATTER OF: LIBERTY UTILITIES (GRANITE STATE ELECTRIC)
CORP. d/b/a LIBERTY UTILITIES
REQUEST FOR CHANGE IN RATES**

DIRECT TESTIMONY OF

**JOHN ANTONUK, RANDALL VICKROY, AND CHRISTINE KOZLOSKY
OF
THE LIBERTY CONSULTING GROUP**

DECEMBER 16, 2016

1 **Introduction**

2 **Q. Please provide your names and addresses.**

3 A. I am John Antonuk. Liberty's offices are located at 279 North Zinns Mill Road, Suite H,
4 Lebanon, PA 17042.

5 I am Randall Vickroy and I am a senior consultant for Liberty.

6 I am Christine Kozlosky and I am a senior consultant for Liberty.

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. We discuss the conclusions of the audit in the areas of capital budgeting and customer
9 service from the perspective of conformity to good utility practice.

10 **Q. Please provide a summary of your backgrounds and experience.**

11 A. We have attached descriptions of our backgrounds and experience as Attachment 2 through 4
12 to this testimony.

13
14 John Antonuk is a founder of The Liberty Consulting Group, which has served more than 40
15 utility regulatory authorities and a similar number of energy utilities across thirty years of
16 service. He has served as the firm's president for many years. He has managed over 200 Liberty
17 projects. Most of them have included utility management and operations, and many have
18 addressed the areas of capital budgeting and customer service.

19
20 Christine Kozlosky is a nationally-recognized customer service expert with broad experience in
21 performing customer service reviews across multiple industries. Her utility customer service
22 reviews with Liberty total nearly two dozen engagements. In the past five years alone her work
23 with Liberty includes commission-sponsored reviews of the customer service functions at Emera
24 Maine, Connecticut Light and Power, Nova Scotia Power, Ameren Illinois, Pepco, Peoples Gas,

1 Newfoundland Power, Newfoundland Hydro, Kentucky Utilities, and Louisville Gas and
2 Electric.

3
4 Randall Vickroy, a former utility treasury budgeting manager, has led Liberty reviews of utility
5 planning, budgeting, and finance for nearly 20 years. Recent highlights of this work include
6 Liberty's management and operations audit of Pepco/PHI for the District of Columbia Public
7 Service Commission and Liberty's review for the Illinois Commerce Commission of senior
8 officer and Board of Director oversight of Peoples Gas Light's Chicago Accelerated Main
9 Replacement Program. He has examined finance, planning, and budgeting in many of Liberty's
10 management and operations audits.

11 **Q. Summarize the firm's experience in performing utility management and operations**
12 **audits.**

13 A. We have performed some thirty of them over a period of more than 25 years. They have
14 formed an essentially continuous element of our firm's practice during that period. For
15 example, we have just completed a focused management audit of a small dispersed New
16 England utility (Emera Maine) and we are actively engaged in the monitoring of the
17 implementation of recommendations arising from a comprehensive management and
18 operations examination of an \$8 billion main replacement program conducted by the utility
19 (Peoples Gas Light) distributing natural gas service in the City of Chicago.

The next table lists our utility management and operations examinations.

| | | |
|-------------------------|----------------------------|------------------------|
| Alabama Electric G&T | East KY Coop. (G&T) | Public Service NH |
| AGLR/Elizabethtown Gas | Emera Maine | Rochester G&E |
| Arkansas Western Gas | KY Utilities/LG&E | SBC/Ameritech |
| Alliant/IPL | NJR/New Jersey Natural Gas | So. Connecticut Gas |
| Bell Atlantic | NY State E&G | SJI/South Jersey Gas |
| Central Hudson G&E | NY Power Authority | United Cities Gas |
| Connecticut Natural Gas | NU/Public Service NH | West Penn Power |
| Colorado Springs | NorthWestern Energy | Yankee Gas |
| Con Edison of NY | NUI/Elizabethtown Gas | Bell Atlantic |
| Dayton Power & Light | Pepco | Large municipal Elect. |

The Management and Operations Audit of Liberty Utilities

Q. Describe the recent management and operations audit that The Liberty Consulting Group performed of Liberty Utilities.

A. The Commission's June 26, 2015 Order No. 25,797 issued in DG 14-180 Approving Settlement Agreement and Permanent Rates observed that a consultant should review the "effectiveness and efficiency" of certain LU-NH business processes, including account creation and management, meter data management, billing; payments and collections, the call center, vendor relationships, corporate services/IT support and service, staffing, accounting, business planning, and property records. The audit's primary objectives were to identify areas of effective and efficient performance, and to identify any improvements possible in management and operations.

Our audit field work took place largely during the first quarter of 2016. We categorized our review into four areas: Customer Service, Planning and Budgeting, Information Technology, and Accounting. Our audit field work included extensive interaction with management, approximately 300 data requests, 75 interviews, and site visits. We reviewed our tentative

1 findings and conclusions with management in a series of roundtable discussions, prepared a
2 draft report, which we provided to management for review, and then completed a final audit
3 report dated August 12, 2016.

4 **Q. Describe your roles in the conduct of this audit.**

5 A. John Antonuk served as the manager of this audit. He directly supervised all audit work, he
6 participated directly in the conduct of field work, and he reviewed and approved the
7 conclusions and recommendations reached. As Liberty's president and as the firm's
8 executive responsible for managing work for utility regulators that has spanned more than
9 two decades, he was also responsible for establishing the standards of performance and the
10 criteria under which Liberty has performed this and dozens of reviews of utility management
11 and performance for utility regulators and for management. Randall Vickroy performed the
12 data gathering, analyses, conclusion and recommendation formation, and report drafting in
13 the area of Planning and Budgeting. Christine Kozlosky performed the data gathering,
14 analyses, conclusion and recommendation formation, and report drafting in the area of
15 Customer Service.

16 **Q. Please provide a copy of the final audit report.**

17 A. It is attached to this testimony as Attachment 1.

18 **The Concept of "Good Utility Practice"**

19 **Q. Describe how you use the term good utility practice in this testimony.**

20 A. The term "good utility practice" has a generally accepted meaning that we have used many
21 times in evaluating management performance. We brought to our examination of the
22 management and operations of Liberty Utilities more than three decades of experience in
23 examining good utility practice in many jurisdictions. While we focused in the Liberty

1 Utilities audit on opportunities for improvement, however good performance already was, we
2 performed our work with an understanding of that industry accepted meaning of “good utility
3 practice.”

4 The U.S. Federal Energy Regulatory Commission (FERC) has offered a classic definition of
5 “Good Utility Practice.” It finds virtually equivalent expression repeatedly in the industry
6 and our use of the term conforms to it. That definition follows:¹

7 *Order No. 888 defined “Good Utility Practice” in section 1.14 of the pro forma*
8 *OATT as follows: Any of the practices, methods and acts engaged in or approved*
9 *by a significant portion of the electric utility industry during the relevant time*
10 *period, or any of the practices, methods and acts which, in the exercise of*
11 *reasonable judgment in light of the facts known at the time the decision was*
12 *made, could have been expected to accomplish the desired result at a reasonable*
13 *cost consistent with good business practices, reliability, safety and expedition.*
14 *Good Utility Practice is not intended to be limited to the optimum practice,*
15 *method, or act to the exclusion of all others, but rather to be acceptable practices,*
16 *methods, or acts generally accepted in the region.*

17
18 The FERC followed the previous statement with this one: ²

19 *Accordingly, public utilities that own, control or operate Commission-*
20 *jurisdictional transmission systems should operate their systems in accordance*
21 *with Good Utility Practice as set forth in the Commission’s pro forma open*
22 *OATT, including complying with NERC reliability standards.*

¹ Policy Statement On Matters Related To Bulk Power System Reliability (Issued April 19, 2004), at footnote 21.

² Ibid. at page 9.

1 Accordingly, the term good utility practice, as we use it in this testimony, refers not to strong
2 or better than average performance, but to the degree of performance that utilities should be
3 expected to attain routinely in serving customers.

4 **Customer Service**

5 **Q. Summarize your principal findings and conclusions addressing customer service.**

6 A. We made many findings and conclusions. Some were positive, and some reflected actions
7 that, although responsive rather than proactive, did address significant customer service
8 performance problems. The audit's principal conclusions about management's customer
9 service performance included:

- 10 ○ We found LU-NH's overall customer satisfaction levels unsatisfactory, declining
11 since 2013, and beneath the Commission's baseline targets. There was some
12 improvement in LU-NH gas customer satisfaction in 2015, but LU-NH's electric
13 customer satisfaction had declined steadily since 2013 reaching a low in 2015 (16
14 points below the Commission baseline target).
- 15 ○ The implementation of a new customer information system in 2013 was
16 accompanied by a dramatic increase in customer complaints to the Commission.
17 Complaint levels peaked in 2014, but appeared to be on the decline in 2015.
- 18 ○ Customer complaint response times began 2015 well above targeted times, but
19 improved substantially as the year progressed.
- 20 ○ Employee satisfaction and engagement were at unsuitably low levels in 2015.
- 21 ○ Offering agent-assisted credit/debit card processing in the Contact Center and
22 walk-in locations increased Payment Card Industry data security standards (PCI
23 DSS) compliance and employee fraud risks.

- 1 ○ Call volumes increased significantly following the implementation of the new
2 customer information system in 2013 and Contact Center staffing proved
3 insufficient in 2014 to meet commission-mandated answering goals; following an
4 increase in staffing in 2015, performance improved, but LU-NHE answering
5 levels fell below targets in 2 of 12 months in 2015.
- 6 ○ Management was not measuring call handling quality consistently or
7 comprehensively; the sampling that was performed evidenced a breadth of
8 problems and a wide variation in performance.
- 9 ○ On average, CSRs were monitored each only four times in 2015, resulting in
10 minimal visibility into call handling performance.
- 11 ○ High read rates and low percentages of estimated bills demonstrated effective
12 meter reading performance.
- 13 ○ The lack of a system to archive and manage meter reading data adversely affected
14 efficiency.
- 15 ○ Management did not employ sufficient methods for addressing theft of service
16 and unaccounted for usage, lacking procedures and an organization dedicated to
17 revenue assurance.
- 18 ○ A lack of attention to enabling website services had produced significant
19 customer dissatisfaction. From inception to 2015, customer ranking of website
20 usefulness had dropped substantially for gas and electric customers (12 and 15
21 points respectively).

- 1 ○ Management acted appropriately to increase the percentage of bills distributed
- 2 electronically to customers, and has increased electronic receipt and processing of
- 3 customer payments.
- 4 ○ Billing performance issues were problematic until a return of performance to
- 5 target levels in 2015, following a doubling of staffing in the billing department.
- 6 ○ Management was not tracking performance against some Commission-required
- 7 billing metrics.
- 8 ○ LU-NH did not have a Contact Center specific emergency/storm plan in place,
- 9 thus increasing customer risk during such events.
- 10 ○ Business Continuity Planning for Customer Care was incomplete.
- 11 ○ Insufficient supervision at satellite offices and call monitoring led to issues in
- 12 quality and employee misconduct in the satellite offices.
- 13 ○ Management did not process customer payments consistently or timely.
- 14 ○ Receivables grew as management was forced to suspend field collections
- 15 immediately following new customer information system implementation;
- 16 staffing an inside collections group addressed delinquent receivables.
- 17 ○ Significant gaps in capabilities of the new customer information system increased
- 18 Customer Service staffing significantly, due to the need for manual workarounds.

19 **Q. Summarize the impact of conditions you observed on customer service and customer**
20 **satisfaction.**

21 A. We found customer satisfaction a major issue. Following the implementation of the new
22 customer information system, LU-NH experienced difficulties producing accurate and timely

1 bills for many customers. Billing issues exceeded staffing capabilities, and backlogs grew,
2 creating increasing call volumes and customer complaints.

3
4 An inexperienced and understaffed customer service organization compounded the
5 difficulties in resolving customer billing problems, as did an unclear escalation path and
6 problem resolution process. Customers experienced difficulty in escalating concerns to
7 supervisors and complaints referred to the New Hampshire Commission took a long time to
8 resolve. Consequently, customer service response suffered and customer dissatisfaction grew.
9 LU-NH's minimally-featured website contributed to customer confusion.

10
11 Significant gaps in system functionality resulted in manual work-arounds, increasing
12 demands on an already taxed group of resources, generating a greater need for resources to
13 produce bills and respond to customer inquiries. Management doubled staffing and increased
14 supervision in the contact center and billing group in 2015 to address these issues. However,
15 the backlog of unbilled accounts was not fully addressed until July 2015. Thus, billing
16 timeliness, as measured by the percent of bills rendered on time, was below target for much
17 of 2015.

18
19 LU-NH had undertaken a number of initiatives to improve Customer Service processes and
20 policies, including improving issue escalation processes, enhancing the website, assigning
21 special task forces, and replacing temporary staffing with full-time employees. Nevertheless,
22 a number of significant challenges remained in more clearly defining the Customer Service

organization, policies, procedures, and in engaging and developing employees to deliver a quality customer experience and reversing the downward trend in customer satisfaction.

Q. Please describe your overall views of the conformity of management's customer services with good utility practice.

A. There were some areas of effective performance, as indicated earlier. Moreover, management was engaged in improvement efforts in some areas where problems existed. Some had already produced improvement. However, given the following two factors, we would not conclude that, overall, management demonstrated an overall level of good utility practice in customer service. The first factor is the breadth of the concerns we found, which extended to many areas central to effective performance. The second factor is the newness of a number of initiatives at the time of our audit work. Given the extent of past problems and those still existing, there was a need for caution in believing that LU-NH's path toward a level of effective and efficient performance would continue.

Planning and Budgeting

Q. Please summarize the audit findings and conclusions in the areas of capital project and major program budgeting and oversight that Staff witness Dudley addresses in his testimony.

A. The audit addressed such issues under the category of Planning and Budgeting. On the positive side, the audit reported:

- No apparent Oakville headquarters restrictions on levels of capital expenditures for New Hampshire operations.
- Effective linking of the holding company's strategic planning and the five-year forecasts to the New Hampshire budgeting processes.

1 However, we found three principal areas in which capital planning, capital budgeting,
2 monitoring, and control did not conform to good utility practice:

- 3 ○ Lack of appropriate analysis, business case development, and detailed cost
4 estimates prior to budget presentation and approval by senior management and the
5 Board of Directors.
- 6 ○ Detailed business case analysis was not provided for the growth, discretionary and
7 regulatory supported projects as specified in the Company's own Capital
8 Expenditure Policy.
- 9 ○ Failure of management in New Hampshire and above to require timely and
10 effective capital budget planning, and to monitor and control capital spending
11 effectively.

12 **Q. Describe more particularly the concerns about the first of these three issues.**

13 A. We examined the capital budget packages for 2014, 2015 and 2016, finding them dated and
14 approved by New Hampshire management during, and not prior to, the budget year. Standard
15 utility practice calls for performing analysis, business cases, project prioritization and
16 detailed cost estimates for presentation and approval to senior management and then to the
17 Board of Directors for approval, each occurring prior to the beginning of the budget year.
18 Many capital projects were well underway before they had been analyzed and approved by
19 New Hampshire senior managers. Capital packages were approved on May 1 and June 1 of
20 budget years 2014 and 2015, respectively. Projects frequently began before they had been:
21 (a) fully analyzed, (b) compared meaningfully to alternatives, (c) supported by business case
22 development, and (d) supported by sufficiently detailed cost estimates.

1 **Q. Describe the concerns regarding the lack of business cases to analyze major capital**
2 **expenditures prior to budget approval.**

3 A. Liberty Utilities had a Capital Expenditures Planning and Management Policy and Procedure
4 document specifying the types of projects requiring a business case to be approved.
5 Management did not provide the types of analysis prescribed for a number of project types.
6 In particular, we did not find alternatives identified and analyzed, and net present value or
7 internal rate of return analysis prepared (as required in the Policy) in the business cases that
8 we reviewed.

9 **Q. Summarize the Audit's findings and conclusions about capital expense variances and**
10 **management control.**

11 A. The audit observed very large capital expense variances in 2014 and 2015. Their frequency
12 and magnitude confirmed a lack of management of and effective control over capital
13 expenditures. Combined, the electric and gas businesses in New Hampshire experienced
14 capital budget over-runs of over 70 percent in 2014, driven by many individual variances,
15 some of them extremely large. We found large variances, both positive and negative, across a
16 wide range of projects and project types.

17
18 The extraordinary number, size, and nature of the variances indicated capital spending that
19 was more opportunistic than well planned. The audit report also expressed concern about the
20 repeated emphasis planning documents showed for investments that drive returns, as
21 compared those associated with preserving or improving utility operating metrics.

1 The total “net” New Hampshire capital budget variance dropped substantially in 2015, but
2 there remained a striking number, size, and breadth of variances at the detailed level, with
3 both large capital expenditure item over-runs and under-runs offsetting each other. The
4 continuation of these variances confirmed concerns about high-level monitoring for capital
5 plans and the sufficiency of attention in managing to those plans.

6
7 Major variances occurred on most line items of the electric and gas 2015 capital budgets,
8 with gas budget “over-runs” of \$16.7 million more than offset by about \$18.3 million of
9 under-runs. Together, these offsetting capital line item figures totaled \$35.0 million of
10 variances on a gas capital budget of only \$32.3 million. The problem with these very large
11 variances on individual projects and programs is that the capital budgets prepared for and
12 approved by New Hampshire management, Oakville management, and the parent were not
13 being followed. Actual expenditures did not reasonably match those categorized in the
14 approved capital budgets.

15 **Q. Please summarize the capital expenditure budgeting, monitoring and control**
16 **conclusions of the audit.**

17 A. First, important analysis, formal applications and detailed project estimating work on capital
18 budgets occurred well after senior management and Board of Directors approvals of the
19 capital budget for each the 2014, 2015 and 2016 budget years. Executive management
20 approved these capital budgets before the performance of important analytical and estimating
21 work, violating good utility practice.

1 Second, the capital budget processes employed violated management's own capital
2 expenditure policies governing the preparation of business cases for use in decision making
3 and capital budget approvals. Analysis and business cases on major capital expenditures prior
4 to approval, good utility practices, were not followed in the 2014 through 2016 budgeting
5 processes.

6
7 Third, the audit found comparatively little attention to monitoring and control of capital
8 expenditures in 2014 and 2015, as evidenced by the large variances on individual line items.
9 This finding contrasts with a far greater emphasis placed on the separate earnings, revenue,
10 and operating expense budgeting. A monthly New Hampshire budget report included only a
11 single chart comparing total capital dollars spent to budget, and included no analysis. Year-
12 end reports also provided only a one-page capital expenditure chart with no supporting
13 analysis.

14
15 Strikingly, a 2014 year-end presentation reported Capital Budget Efficiency scores of 100
16 percent, misleadingly indicating excellent capital budget performance. The same document,
17 however, reported actual capital expenditures of \$66.6 million and a budget of \$44.1 million.
18 Even that actual figure was questionable, given later reports of \$77.3 million in actual 2014
19 capital spending.

20 **Q. Compare the audit's findings and conclusions with those reached by Staff witness**
21 **Dudley in his testimony.**

22 A. We found a number of concerns in areas that Staff witness Dudley addresses in his
23 testimony. They include:

- 1 ○ The preparation of business cases to support capital projects and programs and the
- 2 assembly of budgets occurred well after senior management and Board of
- 3 Director approvals, rather than providing important information for the capital
- 4 decision process.
- 5 ○ Even when performed, business cases frequently lacked key elements, such as
- 6 economic analysis supporting projects and programs included in budgets.
- 7 ○ There was a lack of sufficient executive and Board of Director monitoring and
- 8 oversight, which we believe contributed to ineffective budget performance.

9

10 The practices in question form central elements in ensuring performance that sufficiently

11 matches approved budgets. In these regards, management performance did not conform to

12 good utility practice. Our audit work disclosed cost performance outside what our experience

13 shows to be reasonable tolerances. We typically see total utility capital budgeting variance

14 tolerances in the range of plus or minus ten percent, with additional Board of Director's

15 approvals required to exceed approved budgets by more than 20 percent. LU-NH has not

16 performed within reasonable variance tolerances, which underscores the lack of effective

17 practices.

18 **Q. Have your reviewed the response of Liberty Utilities to Data Request Staff 11-34?**

19 A. Yes.

20 **Q. Please summarize your views about that answer as it concerns your testimony.**

21 A. There are a number of ways that the industry describes different types of "preliminary"

22 estimates. We generally have seen the first three types listed in the response described as

23 conceptual, preliminary, and definitive. Different companies also attach different levels of

1 uncertainty to each type. We find +/-10 percent a proper range of accuracy to seek in
2 estimates used for annual capital budgets that are approved by senior management and the
3 Board of Directors, which are the official capital budgets on which budget performance is
4 calculated.

5 **Q. Does that complete your testimony?**

6 A. Yes.