



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 14-180

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

DIRECT TESTIMONY

OF

JOHN LOWSON

August 1, 2014

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LIST OF ATTACHMENTS

- Attachment JL-1: Description of Third Party IT Applications Implemented and Vendor
IT Costs
- Attachment JL-2: Supplemental Response to Staff 1-72 in DG 11-040
- Attachment JL-3: Non-Vendor IT Costs

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is John Lowson. My business address is 2845 Bristol Circle, Oakville,
4 Ontario, Canada L6H 7H7.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Liberty Utilities (Canada) Corp. as the Vice President of
8 Transition Management and Information Technology. In that capacity, I am
9 responsible for leading a portfolio of projects valued at approximately \$20 million
10 annually, including transitioning Algonquin's subsidiaries, including all of the
11 regulated utilities owned by Liberty Utilities Co., onto standard process and IT
12 applications and overseeing IT functions including infrastructure, applications,
13 security and the service desk. I also develop and implement IT strategy to support
14 the generation and utility businesses as they evolve.

15

16 **Q. Please describe your educational background and professional experience.**

17 A. In 1984, I graduated with Honors from Cambridge University in England, earning a
18 Bachelor of Arts degree in Physics and Theoretical Physics. My professional
19 career spans from start-ups to global consulting and outsourcing firms throughout
20 Canada, the United States and the United Kingdom. I have eighteen years of
21 experience in utility customer service, meter-to-cash and customer information
22 system (CIS) functions. I was employed by Accenture from 1995-2009, where I

1 was a Senior Executive and VicePresident of Operations for Accenture’s Utilities
2 Business Process Outsourcing Services. While at Accenture, I ran the meter-to-
3 cash operations (meter reading, billing, payments and collections) for over five
4 million customers with 500 employees and \$100 million per year in direct costs. I
5 also was responsible for managing the delivery of the meter to cash and customer
6 service business process for Enbridge Gas Distribution, and led Enbridge to its
7 highest level of customer satisfaction and reducing escalated complaints by 90%.
8 From 2009 to 2013, I was an independent consultant providing consulting services
9 to clients on outsourcing of IT services, the development and implementation of
10 customer information systems strategy, as well as on billing and payment
11 processes. I have managed business units through major change, architected, sold
12 and delivered multi-year outsourcing contracts worth more than \$300 million and
13 successfully managed client relationships at an executive level.

14

15 **Q. Have you previously testified before the Commission?**

16 A. No, though I did appear before the Commission at the May 27, 2014 status
17 conference in Docket No. DG 11-040.

18

19 **Q. What is the purpose of your testimony?**

20 A. My testimony discusses the IT investments made by Liberty Utilities (EnergyNorth
21 Natural Gas) Corp. (“EnergyNorth” or the “Company”) since its purchase by
22 Liberty Energy Utilities (New Hampshire) Corp. on July 3, 2012, including the

1 following: (1) each of the vendor IT applications that have been purchased and
2 implemented by EnergyNorth, the necessity of those applications, and the process
3 used to procure them; (2) the cost of each of those applications that are included in
4 this rate filing; and (3) the non-vendor IT costs incurred by EnergyNorth in
5 association with these new systems.

6
7 **Q. Please provide some background on why it was necessary for EnergyNorth to**
8 **invest in IT infrastructure.**

9 A. On July 3, 2012, Liberty Energy Utilities (New Hampshire) Corp. bought the stock
10 of EnergyNorth and Liberty Utilities (Granite State Electric) Corp. (“Granite
11 State”) from National Grid USA (“National Grid”). At the time of that sale, neither
12 EnergyNorth nor Granite State had its own IT systems such as customer
13 information systems, gas control, SCADA, and work management systems, among
14 others. Pursuant to the Settlement Agreement approved by Order 25,370 in Docket
15 No. DG 11-040, EnergyNorth and Granite State entered into Amended and
16 Restated Transition Services Agreements with National Grid pursuant to which
17 National Grid agreed to provide transition services for up to twenty-four months to
18 EnergyNorth and Granite State. These transition services included, among others,
19 operations, gas control and procurement, energy solutions delivery and efficiency,
20 customer services support, and IT transition services. During the time that National
21 Grid was providing transition services to EnergyNorth, EnergyNorth was preparing
22 its own systems to replace the services provided by National Grid. In essence,

1 EnergyNorth was building systems from the ground up for all facets of its
2 operations. On September 3, 2013, EnergyNorth cutover from National Grid's
3 customer information, work management and finance systems to its own, and since
4 that date has been functioning independent of National Grid for all customer
5 service, work management and finance functions. To date in 2014, EnergyNorth
6 implemented other IT infrastructure investments such as GIS, gas control/SCADA
7 (Telvent OASyS), gas procurement (GASTAR), as well as upgrading the Cogsdale
8 CIS application to version 11.29.

9
10 **Q. Please identify each IT application implemented by EnergyNorth for which**
11 **EnergyNorth seeks recovery in this case.**

12 A. Attachment JL-1 to my testimony identifies each of the IT applications that was
13 procured from a third party and the functionality of the application, the date it was
14 implemented by EnergyNorth, and the cost of the application for which the
15 Company seeks rate recovery in this case.

16
17 **Q. Does EnergyNorth share any of these applications with Granite State?**

18 A. Yes. As reflected in Attachment JL-1, some of the applications are also used by
19 Granite State. Attachment JL-1 reflects the cost that has been allocated to
20 EnergyNorth where the applications are in joint use.

1 **Q. Do the costs shown on Attachment JL-1 represent the full cost of those**
2 **applications?**

3 A. No. Some of the applications contained in Attachment JL-1, such as Cogsdale, are
4 in use by other Liberty Utilities affiliates. In cases such as that, EnergyNorth has
5 only borne those costs that relate directly to its adoption of the application or, if the
6 costs were incurred for other affiliates as well as EnergyNorth, were allocated
7 between the companies for which the costs were incurred.

8
9 **Q. What process did Liberty undertake to select the vendors and to ensure the**
10 **lowest cost possible for each application?**

11 A. Liberty's selection of the various IT vendors was addressed in detail in Docket No.
12 DG 11-040. As part of that docket, Granite State and EnergyNorth submitted an
13 Information Technology Plan that provided a detailed process for technology
14 selection, vendor selection, and vendor management. That Plan was included as
15 Attachment G to the Settlement Agreement in Docket No. DG 11-040 which was
16 approved by Order 25,370.

17
18 **Q. How much in third party IT vendor costs is EnergyNorth seeking to recover in**
19 **this case?**

20 A. Attachment JL-1 reflects all of the vendor costs for each of the IT applications that
21 have been implemented to serve the Company's customers. EnergyNorth incurred
22 \$5.57 million in vendor costs for creating this IT infrastructure for which it is

1 seeking recovery. The revenue requirement associated with this investment is
2 included in Mr. Mullen's and Mr. Gorman's testimony.

3
4 **Q. Were there any limits imposed on the total amount of IT capital investment**
5 **incurred by EnergyNorth as part of the sale of the Company?**

6 A. Yes. Section V(D)(2)(g) of the Settlement Agreement in Docket No. DG 11-040
7 states that "[t]he Companies' prudently incurred IT capital investments required to
8 complete the transition of services from National Grid to the Companies, of up to
9 \$8,100,000 less depreciation (i.e., net plant in service at the time of the rate filing),
10 are eligible for recovery in future rate filings. IT capital investments in excess of
11 \$8.1 million required to complete the transition of services from National Grid to
12 the Companies are not eligible for recovery in future rate filings, with the exception
13 of IT capital expenditures required to complete the transition of services due to a
14 "State Initiated Cost Change"...or a "Federally Initiated Cost Change"...after the
15 Closing Date shall not be counted against the IT recovery cap."

16
17 **Q. Please explain what items/components were included as the basis for**
18 **developing the cap.**

19 A. The genesis of the \$8.1 million cap was the Company's response to a Staff data
20 request in the docket that asked the Company to detail the capital expenditures that
21 would be necessary to be invested to replace existing National Grid systems. That
22 data response is included here as Attachment JL-2 and was provided as Attachment

1 SPF-2 to Stephen Frink's testimony in Docket No. DG 11-040. Attachment JL-2
2 contains a list of each of the IT systems to be procured by Liberty to replace the
3 National Grid IT systems and was premised only on the costs to be paid to vendors
4 of those applications. As Mr. Frink's testimony explained, the estimate was \$6.389
5 million, but a contingency was built in and thus the \$8.1 million cap was
6 established. My understanding is that at the time the \$8.1 cap was established,
7 National Grid anticipated that it would be transitioning to new IT applications in
8 the near future, and that the customers of EnergyNorth and Granite State would be
9 incurring costs for that conversion but for the sale of the companies to Liberty.
10 National Grid projected that EnergyNorth would incur \$7.1 million for those
11 applications, while Granite State would incur \$3.1 million. In comparison, the
12 Liberty IT applications were more cost effective for customers. As explained
13 further in my testimony, the Company's actual costs for its Customer Information
14 System are on the low end of the industry range.

15
16 **Q. Are the IT applications for which the Company seeks recovery in this case the**
17 **same as those on Attachment JL-2?**

18 **A.** In all but a few cases, yes. In two cases the Company procured systems for the
19 same purpose but from another vendor. Vocantis was originally expected to
20 provide the IVR solution but the Company subsequently chose to implement the
21 CISCO solution which is functionally superior. Similarly, Allegro was originally
22 anticipated to have been the application used for gas procurement but the Company

1 subsequently determined that the GASTAR product from ENSYTE was a better fit
2 for Liberty's requirements in New Hampshire.

3
4 The Company also procured the FORTIS system that was not included in
5 Attachment JL-2. As described on Attachment JL-1, FORTIS is necessary for the
6 Company's gas operations as it houses drawings and tabular information relating to
7 the main and secondary gas lines in EnergyNorth's service territory which are used
8 by Engineering and Operations staff both in the office and when they are in the
9 field – via mobile computers that have been installed in vehicles used by field
10 operations. To attempt to operate EnergyNorth without this application would
11 generate additional operating costs and/or would provide a level of customer
12 service that Liberty deemed unacceptable.

13
14 **Q. Is the Company within the \$8.1 million cap?**

15 A. Yes. EnergyNorth's share of the \$8.1 million cap is \$5.67 million, based on a
16 rough 70/30 split between EnergyNorth and Granite State which reflects the
17 entities' relative size. EnergyNorth's actual expense of \$5.57 million is within that
18 allocable share.

19
20 **Q. Has the Company incurred any non-vendor costs for which it seeks recovery?**

21 A. Yes. The Company incurred \$6.78 million in non-vendor costs associated with the
22 implementation of these IT applications. These costs, which are detailed on

1 Attachment JL-3, include Company labor associated with procuring the IT
2 applications, implementing the applications once procured, and training employees
3 to use the applications in order to provide service to customers on a daily basis.
4 The amount of these costs, and the process undertaken to implement these
5 applications from purchase-to-use, are described in Attachment JL-3. The revenue
6 requirement associated with this investment is included in Mr. Mullen's and Mr.
7 Gorman's testimony.

8
9 **Q. Will all of the IT capital investment for which the Company seeks recovery be**
10 **used and useful as of December 31, 2014?**

11 A. Yes.

12
13 **Q. Based on your professional experience in implementing customer information**
14 **systems for utilities, is the cost spent to implement the Company's system**
15 **reasonable?**

16 A. Yes. Established industry metrics reflect an average of approximately \$75 per
17 customer for implementation of a new Customer Information System, including
18 hardware, software, external labor, and internal labor. The total CIS (Cogsdale)
19 implementation costs for EnergyNorth and Granite State were approximately \$6.6
20 million, of which approximately \$4.9 million is attributable to EnergyNorth. This
21 equates to \$58 per customer which is at the low end of the industry range.

1 **Q. Does this conclude your direct testimony?**

2 **A. Yes, it does.**