

Case 16-G-0257 Rebuttal Testimony of Donald A. Parr

1 Q. Please state your name and business address.

2 A. Donald A. Parr. My business address is 8955 Guilford Rd #260, Columbia,  
3 Maryland 21046.

4 Q. Please state your business affiliation.

5 A. I am employed by Black & Veatch Management Consulting, LLC (“Black &  
6 Veatch”) as an Associate Vice President and I lead its Customer Operations &  
7 Billing Solution Practice.

8 Q. Please describe Black & Veatch management consulting.

9 A. Black & Veatch is a global engineering, consulting, construction, and operations  
10 company specializing in infrastructure development in energy, water,  
11 telecommunications, management consulting, federal, and environmental markets.  
12 Black & Veatch Management Consulting, LLC is a wholly owned subsidiary of  
13 Black & Veatch created to provide clients with comprehensive financial,  
14 technology and strategic consulting services within the electric, oil and gas and  
15 water markets. Our consulting expertise is backed by deep industry, technical and  
16 engineering experience that enables us to understand and address the most  
17 complex issues facing our clients.

18 Q. On whose behalf are you submitting this rebuttal testimony?

19 A. I am appearing on behalf of the National Fuel Gas Distribution Corporation  
20 (“Distribution” or the “Company”).

21 Q. Have you previously provided testimony in this proceeding?

22 A. No.

23 Q. Please describe your educational background and business experience.

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1 A. A detailed summary of my educational and professional experience is provided in  
2 Exhibit\_(DAP-1). I have a B.A. degree in Economics and a B.S. degree in  
3 Finance from the University of Maryland, College Park. My relevant fields of  
4 study include corporate finance, management information systems and data  
5 analytics. I have provided consulting services to public and investor owned  
6 utilities since 1989. I have provided these services through major consulting firms  
7 including Andersen Consulting (now Accenture), Arthur Andersen Business  
8 Consulting, BearingPoint and Black & Veatch. My area of focus has been  
9 Customer Operations & Billing for the vast majority of my career. I have been  
10 involved in seventeen (17) Customer Information System implementation projects  
11 at electric, gas and water utilities similar to the recent Barcelona Project  
12 undertaken by Distribution.

13 **Q.** What is the purpose of your rebuttal testimony?

14 A. The purpose of my rebuttal testimony is two-fold. First, to address certain issues  
15 related to the costs associated with the operation and maintenance of the new  
16 Customer Information System solution (“CIS” or “solution”) implemented by  
17 Distribution in May 2016 which were raised by Mr. Haslinger of the New York  
18 State Department of Public Service staff (“Staff”). Second, to address the  
19 additional 1% productivity adjustment recommended by the Staff Policy Panel to  
20 account for future efficiencies, benefits, or cost savings which may be realized by  
21 the Company as a result of the new system's implementation. The scope of the  
22 new CIS solution includes CIS and Work Management from SAP and other  
23 software providers.

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1 **Q.** Please summarize your rebuttal testimony.

2 A. My rebuttal testimony provides evidence that Distribution's proposed CIS  
3 Support Plan and Associated Costs as presented by Distribution witness, Mr.  
4 Patrick Boyle, are consistent with:

- 5 1. My expert knowledge of the expected costs to implement a CIS and  
6 MWM solution in a utility with characteristics similar to Distribution's;
- 7 2. My personal experience in the planning and execution of initial post  
8 production support related to CIS solutions for utilities;
- 9 3. The experience conveyed to Distribution by other utilities as presented in  
10 the rebuttal testimony of Patrick T. Boyle;
- 11 4. The industry experience of Zarko Sumic of the Gartner Group as  
12 presented in the rebuttal testimony of Mr. Boyle;

13 and, that the additional one percent productivity adjustment based on the CIS and  
14 MWM system's implementation is inappropriate.

15 **Q.** How much do utilities spend on the implementation of similar CIS solutions to  
16 the one implemented by Distribution?

17 A. The CIS solution implemented by Distribution has two major components –  
18 Customer Information System and Mobile Work Management System. The  
19 industry estimates for the implementation of a CIS solution is \$90-120 per  
20 customer for utilities similar to Distribution. The industry estimate for the  
21 implementation of a Mobile Work Management System is \$8,000 – 12,000 per  
22 user. The table below illustrates the industry estimated budgetary pricing for  
23 Distribution:

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System	Estimating Metric	Cost Per	Budgetary Implementation Price
CIS	740,000 Customers	\$90-120	\$66-88 Million
MWM	400 Users	\$8,000-12,000	\$3 – 5 Million
Total			\$69 – 93 Million

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3 The industry estimating factors imply that a prudent budget for this solution for  
4 Distribution should be \$69M-93M. The factors that go into the range are  
5 complexities of the market(s) that the utility operates in, number of customers and  
6 customer mix between industrial, commercial and residential accounts.

7 **Q.** Distribution spent \$60 Million on the implementation project for the new CIS  
8 Solution. Please express your opinion on that expenditure?

9 **A.** As shown above, utilities of similar size to Distribution have spent between \$69M  
10 and \$93M implementing solutions like the one implemented by Distribution.  
11 Distribution's expenditure of \$60 Million is on the lower end of the range of  
12 project expenditures. There are a number of recent high profile overruns at  
13 utilities such as Seattle City Light, Los Angeles Department of Public Works or  
14 Emera Maine. Each of these utilities was significantly over budget and over the  
15 estimated range above. Based on my experience, Distribution was highly  
16 effective and prudent in its CIS solution expenditure.

17 **Q.** Do utilities experience savings related to a CIS as soon as they go-live with the  
18 new solution?

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1 A. No. Implementing and operating a new CIS, introduces many new processes that  
2 are required to operate the solution and it takes significant time and experience  
3 with the solution to stabilize the solution.

4 Q. Should Distribution's CIS replacement project have been more focused on not just  
5 replacing all required functionality with a modern system, but in striving to add  
6 additional automation and features which might have delivered more efficiencies  
7 and benefits?

8 A. There are risks of replacing an antiquated legacy system with an SAP system and  
9 the project taking on too much scope as part of that replacement. There are many  
10 examples in the utility industry where projects of similar scope and complexity  
11 have gone over budget and / or over schedule. The examples cited above at  
12 Seattle City Light (\$56M budget vs. \$98M actual, 12 months delayed) and Emera  
13 Maine (\$17M budget vs. \$30M actual), point to poor project management and  
14 control of scope that led to 50%-80% overruns and delays of up to 12 months.  
15 Distribution's approach was prudent and is evidenced by their delivery of a  
16 functional system at a cost which is on the low end of industry norms.

17 Q. When do utilities experience opportunities for performance improvement?

18 A. The typical experience of utilities with new CIS is that phase one of support is  
19 spent stabilizing the solution. The next phase of support is spent understanding  
20 areas where optimization can be made, determining the value and priority of those  
21 changes and creating an action plan to implement those changes. The final phase  
22 of support is when noticeable improvements to processes can be made that begin  
23 to have an impact on the support and operating costs of the solution. Based on

1 my experience, Distribution will still be in the first or second phase of support  
2 during this rate case period.

3 **Q.** Are the additional CIS support costs proposed by Distribution associated with the  
4 deployment of its new CIS reasonable?

5 **A.** Yes. With respect to Distribution's proposed level of expenses, there are specific  
6 and tangible services provided that are necessary to support the implementation of  
7 the new CIS. The addition of ten (10) Full Time Equivalent ("FTEs")<sup>1</sup> for a  
8 utility the size and complexity of Distribution is fully justifiable and reasonable.

9 **Q.** What are the areas that support the increase in support costs for distribution's new  
10 CIS?

11 **A.** There are five areas which require an increase in Distribution's CIS support costs.

12 These five areas include:

- 13 1. Support of multiple CIS systems (IT Support staff).
- 14 2. Support for new development tools (IT Support Staff).
- 15 3. Support for configuration and environments (IT Support Staff).
- 16 4. Support for completion of exception work items (Consumer Business  
17 Staff).
- 18 5. Reduced productivity of Consumer Business and Field Customer Service  
19 staff resources.

20 These five areas should be used to assess the proposed expenses of Distribution's  
21 Support Plan to determine whether the proposed plan is just and reasonable with  
22 regard to the level of expenses included in each year of the proposed plan.

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<sup>1</sup> See the direct testimony of Patrick T. Boyle, p. 51, lines 17-19.

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1 **Q.** Is Distribution maintaining its legacy CIS for a time in conjunction with the new  
2 CIS?

3 **A.** Yes, it is my understanding that the Company will be operating both systems  
4 together for a limited time.

5 **Q.** What is the justification for the support of multiple CIS systems?

6 **A.** Distribution's legacy CIS has been left in read only mode to support the historical  
7 inquiry into customer's accounts. While the Barcelona project team converted  
8 one year's worth of meter and billing history, there are customer inquiries that  
9 require history beyond the one-year period that was initially reflected in the new  
10 CIS. This is a common practice for utilities moving to a new CIS. Based on my  
11 experience, most utilities that are replacing a CIS do an analysis that shows that  
12 the complexities of converting more than one year's worth of history is extremely  
13 cost prohibitive due to the rigid historical dependencies built into new CIS  
14 packages like SAP.

15 The support for this area is usually 1-2 FTEs for utilities similar to Distribution.

16 **Q.** What is the justification for the support related to new development tools?

17 **A.** With the implementation of the SAP solution, there are a number of new tools and  
18 programming languages that need to be supported by the utility. These tools  
19 include SAP's Process Integrator and Solution Manager. These are necessary  
20 tools in the management of changes to configuration and extensions specific to  
21 Distribution's patches and upgrades to the core software from SAP. The SAP  
22 solution requires the use of two primary programming languages – ABAP and

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1 JAVA. The introduction of these tools and languages typically adds 5-7 FTEs in  
2 the programming and development infrastructure support area.

3 **Q.** What is the justification for the support related to configuration and  
4 environments?

5 **A.** With the SAP solution, there is a significant effort required to manage the  
6 technical and functional configuration of the solution. The technical  
7 configuration impacts how the solution operates within its technical architecture  
8 including support for production, training, test and development environments.  
9 The technical architecture includes hardware, operating system, communications  
10 and database structures – all of which are new to Distribution’s CIS team. The  
11 functional configuration impacts how the solution supports the business  
12 processing and operational needs. Examples of functional configuration include  
13 rate structures, application and process security, and credit and collections  
14 timelines that drive CIS processing. As the solution matures, Distribution’s  
15 configuration resources will need to enhance the initial configuration to optimize  
16 the supported operational and business processes. The maintenance of the  
17 technical configuration typically adds 2-3 FTEs in the environment administration  
18 area of the CIS support team. The maintenance of the functional configuration  
19 typically adds 3-6 FTEs to the functional area of the CIS support team.

20 **Q.** What is the justification for the support related to completion of exception work  
21 items for Consumer Business Staff?

22 **A.** Enterprise solutions like SAP have significantly more accounting controls built in  
23 than typical purpose built custom solutions such as Distribution’s legacy system.

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1 These accounting controls ensure that all records are processed by maintaining a  
2 strict accounting for all records and accounts to be processed. These controls  
3 allow for the integrity of the business processes to be maintained. When an  
4 exception to an account level control occurs, an exception is generated in to an  
5 electronic work queue. The solution manages the exception lifecycle and requires  
6 these to be resolved in a timely manner. Because there are more exceptions  
7 generated and these exceptions need to be resolved, there is an increased  
8 workload created. The increased workload of resolving exceptions typically adds  
9 3-10 FTEs to the Consumer Business area.

10 **Q.** What is the impact and rationale for the reduction in productivity of Consumer  
11 Business and Field Customer Service staff resources?

12 **A.** Enterprise solutions like SAP have a different look and feel, business processes  
13 and underlying data model that have a significant learning curve even for  
14 experienced resources. Based on my experience on projects of similar scope and  
15 organizations of similar make up to Distribution's, even with an effective Change  
16 Management program that includes training and other education efforts, the  
17 productivity of the Consumer Business organization (call center and back-office  
18 processing) is typically reduced to 60% of its previous level when a new CIS is  
19 deployed.

20 To achieve the service levels experienced prior to the new CIS, the Consumer  
21 Business organization typically requires the addition of 6-15 FTEs in years one  
22 and two, depending on the complexity. Of the added resources, typical  
23 organizations permanently (year three and after) add 2-4 FTEs in the Consumer

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1 Business team. To achieve the service levels experienced prior to the new MWM,  
 2 the Field Customer Service organization typically requires the addition of 5-10  
 3 FTEs in years one and two, depending on the complexity. Depending on the  
 4 utilities' long term needs, these FTEs are added as employees and other times as  
 5 contract or temporary workers. Of the added resources, typical organizations  
 6 permanently (year three and after) add 3-5 FTEs in the Field Customer Service  
 7 team.

8 **Q.** Please summarize your conclusions related to the support organization required  
 9 for Distribution's new CIS.

10 **A.** Distribution's proposed support organization and related expenditures for its new  
 11 CIS appear to be reasonable and prudent based on my experience with CIS  
 12 implementation activities for similarly situated utilities. Based on each of the  
 13 impacted areas enumerated above, the range of staff resource additions required  
 14 by a utility such as Distribution is summarized in the table below.

SUPPORT AREA	REQUIRED INCREASE IN FTEs
1. Multiple CIS systems (IT Support Staff)	1-2
2. New development tools (IT Support Staff)	5-7
3. Configuration and environments (IT Support Staff)	5-9
4. Completion of exception work items (Consumer Business Staff)	3-10
5. Reduced productivity of Consumer Business and Field Customer Service resources	2-25
<b>TOTALS</b>	<b>16-53</b>

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In my opinion, based on systems I have been involved with implementing, the CIS support plan and related expenditures submitted by Distribution in this proceeding falls at the lower end of the range of increases in FTEs identified above and are certainly reasonable for the system Distribution installed.

**Q.** At pages 14 to 15 of their testimony, the Staff Policy Panel states:

We propose to impute an additional 1% productivity, thus bringing total productivity to 2% for the Rate Year. The additional productivity is intended to capture the unquantified cost savings associated with the new CIS system and the discontinuation of the old legacy system. Increasing the productivity to 2% results in a \$0.76 million reduction to Rate Year Operation and Maintenance (O&M) expense. We believe this amount is conservative, considering the significant opportunities for the Company to achieve productivity and savings.

Do you agree with Staff's recommendation?

**A.** No. Based on my foregoing testimony, I recommend that the New York Public Service Commission both (1) approve the proposed support expenditure as enumerated in Distribution's plan and (2) reject Staff's additional productivity adjustment. In my expert opinion, Staff's additional productivity adjustment of 1% is not realistic or supported by the real world implementation of CIS systems which, as I have clearly demonstrated, actually reduce productivity in the first few years of their operation.

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1 Q. The period for which rates are being set in this proceeding are the 12 months  
2 ending March 31, 2018. Do you believe it is reasonable to expect that the  
3 implementation of the new CIS system will produce any net productivity savings  
4 in this period?

5 A. No, I do not. As I explained in my testimony, in my experience utilities do not  
6 even begin to see productivity gains appear until sometime in the third year after  
7 the system commences operation. Given that the Company's CIS system only  
8 "went live" on May 9, 2016, it is unreasonable to impute any additional  
9 productivity in the Rate Year arising from the new CIS.

10 Q. Does this complete your rebuttal testimony?

11 A. Yes, at this time.