

Office of the Consumer Advocate

PO Box 23135
Terrace on the Square
St. John's, NL Canada
A1B 4J9

Tel: 709-724-3800
Fax: 709-754-3800

October 26, 2020

Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's, NL A1A 5B2

**Attention: G. Cheryl Blundon, Director of
Corporate Services / Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland Power Inc. - 2021 Capital Budget Application -
Customer Service System Replacement Project
- Technical Conference – November 10, 2020 – Issues List**

On July 9, 2020 Newfoundland Power (“NP”) submitted to the Public Utilities Board (the “Board”) its 2021 Capital Budget Application (“2021 CBA”). A new Customer Service System at a cost of \$31.6 million over three years is included in the Application and will be the subject of a Technical Conference to be held virtually on November 10, 2020. A letter from the Board dated October 19, 2020 requests the parties to file their issues list with respect to the technical conference on the Customer Service System Replacement Project by Monday, October 26, 2020.

The replacement project for the Customer Service System is in issue generally and, in particular, without limiting the generality of the foregoing, the following is the list of some issues relating to this project.

1. Risks / Quantification of Risks

In its October 1, 2020 submission to the Board, NP states (Page 6 of 8) “*certain increases in risks facing the system have already materialized and deferring system replacement would expose customers to a high level of risk.*” Further, the response to CA-NP-070 indicates that “*deferring replacement of the existing CSS would increase costs to customers. A capital project would be required to replace Newfoundland Power’s server infrastructure in 2020 with technology that is already obsolete.*”

The Consumer Advocate wants to understand the risks that have materialized in 2020, how they have been mitigated and at what cost, and what is expected to occur in the 2021 – 2023 time-frame that makes these risks unmanageable and too costly. Specifically, what is the cost of risk mitigation and how does it compare to savings resulting from deferral of the project?

2. **Binary Choice Limitation Issues**

The Consumer Advocate wants to understand why the Board is being presented with a binary choice; either the current system (which remains usable) or a new \$31.6 million system designed by a consultant that may get the work and for a utility that has little incentive to hold back capital spending. There is nothing in between such as developing a list of the minimum essentials for a CSS and calling for bids or setting a budget of \$x and calling for consultants to provide what they can for that amount.

3. **Cost Issues**

Why is Newfoundland Power seeking a \$31.6 million expenditure without first having acquired a vendor that has submitted a detailed cost proposal? NP's October 1, 2020 submission to the Board states (pages 6 and 7 of 8) "*All costs to execute this project including product and implementation costs, are included in EY's recommended cost estimate. Acquisition of a specific vendor was therefore not necessary to develop a sound cost estimate.*"

How is it that EY knows what the different vendors will bid in a competitive solicitation without having already conducted the solicitation or without having already been selected as the winning bidder? EY itself states (page 3 of the EY Report) "*The estimated costs to procure, implement, and stabilize a modern CIS replacement solution is estimated at approximately \$31.6 Million over an 8-month pre-implementation period, a 21-month implementation period, and a 4-month post-implementation period*" (emphasis added).

4. **Procedure and Process Issues**

Given the magnitude of the expenditures for this project (\$31.6 million over 3 years), the Consumer Advocate wants to understand why it is appropriate to lump this project in with the 2021 Capital Budget Application rather than file a separate application where it can be assessed under the Capital Budget Guidelines recommended by the Board's consultant Midgard. This would avoid the appearance that NP is trying to gain approval of a major project before the fairer and stricter requirements of the new Midgard Guidelines could be adopted by the Board. The Consumer Advocate points out that NP has not quantified the risks or benefits to consumers which in our opinion is inexcusable for a project of this magnitude.

5. **NP / Provider Process Issues**

The Consumer Advocate wants to better understand the relationship between EY and Newfoundland Power.

- (a) Provide details of terms of number of engagements and revenue has EY performed for NP in the last ten years?
- (b) NP proposed to spend \$1.3 million over the 3-year period from 2018 to 2020 on an assessment of its Customer Service System (see NP 2019-2020 GRA, page 3 of 11). Provide details as to how this money expended (i.e., how many phases, dollar amounts, how many requests for proposals, winning bidders, etc.), and to what providers, and to

what manner, including all amounts that went to EY? What is the final amount charged to consumers and how much of this money went to EY?

- (c) The EY Report (see EY's March 2020 report – *Customer information system - Assessment results and planning recommendations*) (page 1) states that in 2019 EY was engaged through a competitive tendering process to “*explore modernization options and implementation approaches*” with respect to the current Customer Service System. The EY Report (page 4) states “*In 2018, Newfoundland Power engaged EY to perform an assessment of the risks associated with the foundational technologies that support CSS. The results from EY's assessment concluded that, while CSS does not pose an immediate operational risk to Newfoundland Power, there are significant functional and technical risks associated with continuing to operate and maintain the application.*” Footnote 1 references an EY report titled “*CSS Technical Risk Assessment*” dated June 2018. It does not appear that this report is part of the record. What is in this report and what is meant when it says that the current “*CSS does not impose an immediate operational risk to Newfoundland Power*”? Provide this report.

Was the report provider selected as a result of the competitive tender and, if so, how many entities submitted bids on this 2018 study.

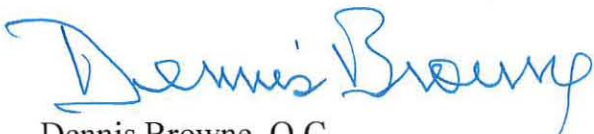
- (d) Issues surrounding the fairness of the competition. Does EY have a significant advantage over other bidders on the proposed solicitation for CSS implementation work given that it has already been paid a substantial sum of money to gain a thorough understanding of the NP delivery system, customer service function and customer base over the past three years when other bidders will have to start from ground zero?

6. Customer Service Reports / Research / Assessments

Please note that the Consumer Advocate's attendees at the conference will be:

- Dennis Browne, Q.C.
- Stephen Fitzgerald
- Dr. James Feehan
- C. Douglas Bowman

Yours truly,



Dennis Browne, Q.C.
Consumer Advocate

/bb

cc

Newfoundland Power Inc.

NP Regulatory (regulatory@newfoundlandpower.com)
Kelly C. Hopkins (khopkins@newfoundlandpower.com)
Liam O'Brien (lobrien@curtisdawe.com)

Newfoundland and Labrador Hydro

NLH Regulatory (NLHRegulatory@nlh.nl.ca)
Shirley Walsh (shirleywalsh@nlh.nl.ca)

Board of Commissioners of Public Utilities

Jacqui Glynn (jglynn@pub.nl.ca)
Maureen Greene (mgreene@pub.nl.ca)
PUB Official Email (ito@pub.nl.ca)