

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

RE: LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP. D/B/A LIBERTY  
UTILITIES

DOCKET NO. DG 14-180

**MOTION FOR DETERMINATION OF SCOPE OF AUDIT INQUIRY**

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (“EnergyNorth” or the “Company”), pursuant to Puc 203.07, hereby moves the Commission to clarify the scope of permissible inquiry in the targeted audit of the Company’s customer service and financial areas that was approved by Order No. 25,797 in DG 14-180. In support hereof, the Company states as follows:

1. As part of the Stipulation and Settlement Agreement (the “Settlement”) approved by Order 25,797 in the Company’s last distribution rate case, DG 14-180, the Company and Staff agreed that “...a targeted audit shall be conducted by an independent consultant selected by the Commission following a competitive bid process.” The scope of the audit is described in Attachment 7 to the Settlement, which is included as Exhibit A to this Motion. The Company is filing this Motion because the Company’s opinion of the scope of the audit differs from the opinion of the Commission Staff and the opinion of the Commission’s consultant, Liberty Consulting Group, Inc. (“Liberty Consulting”), and thus seeks a ruling from the Commission to clarify the matter.<sup>1</sup>

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<sup>1</sup> Section II(L) of the Settlement Agreement anticipated this possibility, and provides that “[i]f any of the Settling Parties has a difference of opinion about what constitutes a ‘related area’ as that term is used in Attachment 7, such difference shall be brought to the Commission for its determination.” See Exhibit A.

2. At the time of the hearing on the merits at which the Settlement was considered, the Company and the Staff had similar views of the scope of the audit. The Company testified that the audit would "...look at two areas of the Company, related to Customer Service and Finance," Transcript of May 26, 2015 hearing in DG 14-180 ("Tr.") at 21, lines 11-14, and the Staff witnesses described the audit as "...an outside audit of the accounting and customer service areas," Tr. at 29, lines 17-20, and an "... audit of the financial reporting/accounting and the customer service areas..." Tr. at 32, line 24, at 33, line 1. The audit was intentionally targeted to focus on the areas where Staff perceived there were issues with the Company's performance. In approving the scope of the audit in the Settlement, the Commission held that "[w]e find that the audit is reasonable because, as "Liberty recognizes," "customer-impacting issues continue to arise." Tr. at 33 (Noonan)." Order 25,797 at 15.

3. In November 2015, the Commission engaged Liberty Consulting to conduct the audit. Liberty Consulting has been meeting with Company representatives and submitting written requests for information to perform its work. To date, the Company has responded to approximately 190 written audit requests and 36 employees have participated in interviews with the auditors both in New Hampshire and Canada, totaling approximately 80 interview-hours.<sup>2</sup> The Company has fully cooperated with Liberty Consulting and will continue to do so, but seeks the Commission's assistance in resolving a dispute regarding the scope of the audit inquiry.

4. Specifically, Liberty Consulting seeks to expand the audit beyond EnergyNorth's "financial reporting/accounting [and] customer service areas," Order 25,797 at 15, to include broad ranging inquiry into, among other things, the business, strategic and financial plans of Algonquin Power & Utilities Corp. ("APUC"), the publicly traded indirect parent of

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<sup>2</sup> This total does not include hours for Regulatory personnel in New Hampshire and Canada who have attended each interview.

EnergyNorth, as well as APUC's non-New Hampshire subsidiaries. For example, Liberty Consulting has requested:

- Strategic plans and strategy books for APUC for 2013-2015
- APUC's Annual 5-Year Plan for 2013-2015
- All quarterly audit reports from APUC's Internal Audit department to APUC's Board of Directors from July 3, 2012 to the present
- Balanced Scorecard results for non-New Hampshire entities owned by APUC, both regulated and unregulated

*See* Exhibit B, which contains a list of audit requests which are in dispute.

5. EnergyNorth has responded to these requests by providing Liberty Consulting with all New Hampshire-specific information such as the New Hampshire Balanced Scorecard, as well as information about how New Hampshire's customer service and finance areas interface with APUC affiliated entities that provide support to EnergyNorth and Liberty Utilities (Granite State Electric) Corp.<sup>3</sup> However, the Company does not agree that information about APUC and other non-New Hampshire entities is within the scope of this audit of the New Hampshire utilities' customer service and finance areas.

6. So that Liberty Consulting will have understanding of how the New Hampshire utilities operate within the context of APUC as an organization, the Company has provided a significant amount of information, both in the form of audit responses and interviews, about how the New Hampshire utilities interface with the corporate entities that provide services and

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<sup>3</sup> While the audit is of EnergyNorth, the Company has provided information about Liberty Utilities (Granite State Electric) Corp. since both utilities use the same system and processes for many functions. This was anticipated and discussed at the hearing. Tr. at 34, lines 8-13 and 35, lines 20-24.

direction to New Hampshire. However, the information sought goes well beyond that relationship and does not inform how the New Hampshire utilities provide customer service to their customers and handle accounting and finance functions associated with gas and electric distribution service in New Hampshire.<sup>4</sup> For example, the corporate strategy and annual plan that is set for APUC does not shed light on how the New Hampshire utilities perform customer-facing functions such as the process for creating customer accounts, when customer deposits are required, the accuracy of meter readings, how customer bills are distributed, how online versus paper bills are transmitted, the receipt and processing of customer payments, how the call center is staffed, how operating and capital budgets are created, and the process for plant accounting. These are all the domain of day-to-day utility functions that do not relate to the high level strategic planning of a \$4.5 billion publicly traded company. While that information may be interesting to Liberty Consulting, it is not necessary for the purpose of the targeted audit of the New Hampshire utilities' customer service and finance areas. In addition, it is material non-public information thereby implicating securities law issues if it is disclosed.

7. As a result, the Company requests that the Commission issue an order clarifying that the audit is limited to inquiries into the conduct of New Hampshire's customer service and finance areas.

8. Liberty Consulting also seeks to interview employees on a range of topics that were already the subject of lengthy assessment by Gorham Gold Greenwich & Associates LLC ("G3") in Docket No. DG 11-040. For example, Liberty Consulting has requested interviews on the following topics:

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<sup>4</sup> While the audit was agreed to in the context of an EnergyNorth rate case settlement, because the information technology system and processes used for the gas utility business are largely the same used in the electric business, the Company has provided information about Granite State Electric in the course of the audit.

- Description of the IT transition from National Grid
- Description of the development and implementation of new IT applications after the acquisition of the NH utilities
- Use of vendors and process for selecting, contracting with, managing and monitoring vendors
- IT application development and implementation processes
- Processes for fixing IT troubles and defects
- IT security and disaster recovery processes
- IT change control processes
- IT training processes
- Description of the IT transition from National Grid and how this was managed
- Description of the development and implementation of new IT applications after the acquisition of the NH utilities

*See Exhibit C, list of interview topics (with disputed areas highlighted in yellow).*

9. These requests go to the very heart of G3's engagement by the Commission which was "to monitor the ongoing development, testing and deployment of information technology systems for Liberty Energy Utilities (Liberty). *See Exhibit D, a copy of the scope of work from the G3 contract.* G3 spent approximately a year performing this work, at a cost of approximately \$450,000. G3 was extensively involved in the transition of the IT systems from National Grid, and was provided the IT Plan, the IT Migration Plan, IT status reports, the IT Testing Plan, and the Network Security Plan and associated settlement as part of DG 11-040. Through this effort, substantial time and resources have been spent by the Company, G3, and Commission Staff to review the Company's IT functions as they transitioned from National Grid and became free-standing.

10. There is no reason for Liberty Consulting to undertake a review of IT issues that have been thoroughly studied by G3. It would unnecessarily consume a significant amount of Company resources only to duplicate work that was already done, and would take away from the very purpose of this audit which is to focus on the Company's customer service and finance areas in order to facilitate improved performance of those functions. Further, the scope of the

audit was intentionally targeted, and was not intended to be a broad-sweeping review of all aspects of the Company's operations. As the Staff acknowledged at the hearing on the Settlement in DG 14-180, "...while this is not a comprehensive management audit, it's styled loosely on that, and more targeted and focused to the areas that we know to be of concern." Tr. at 35, lines 10-13. It is important that the audit stay true to that focus; otherwise, the benefit of it may be lost, and there may be significant resources expended to unnecessarily investigate other issues that were not part of the bargained for exchange as part of the settlement process.

11. The Company's concern about potential inclusion of previously reviewed IT-related matters and, therefore, an expanding scope of the audit, first arose in November 2015 soon after Liberty Consulting's contract was awarded, and prior to commencement of Liberty Consulting's work. Commission Staff informed the Company that it wanted to provide Liberty Consulting with a copy of the Network Security Assessment—which, as noted above, was a part of the DG 11-040 proceeding—as part of the information to be reviewed in this audit. The Company informed Staff that it viewed the Network Security Assessment as being well beyond the agreed-upon targeted scope of the audit and did not agree that it should be provided to Liberty Consulting.

12. In agreeing to the scope of the targeted audit, the parties acknowledged that the list in Attachment 7 might not necessarily be comprehensive. For that reason, Attachment 7 provided that "[t]he following represents areas for review during the course of a targeted audit but not limit the scope of the audit should the independent consultant, chosen by the Commission following a competitive bid process, determine a review of related areas is appropriate." Exhibit A at 24. From the Company's perspective, this provision was intended to allow for inquiry by the independent consultant into an area that may not have been listed but impacted the customer

service and finance areas. For example, Attachment 7 provides for inquiry into a number of areas affecting the call center and the customer group, but does not specifically list the subject matter of training of customer service representatives. The Company would not dispute that inquiry into how customer representatives are trained could be a “related area” to those items listed on Attachment 7. Other “related areas” could include the Company’s Communications Plan and administration of its website. For both of these areas, the Company has provided information to Liberty Consulting and made employees available for interviews, despite the fact that they were not specifically listed in Attachment 7 to the Settlement Agreement. Similarly, information about how the finance and accounting functions interrelate within the New Hampshire finance group, though not listed, is certainly a related area that could shed insight into the effectiveness of that function.

13. But broad-based, non-targeted inquiries into all levels of the corporate structure is not consistent with the intention of the “related areas” proviso in Attachment 7. While the Commission’s RFP for the independent consultant used the term “Management Audit” and the initial invoice prepared by Liberty Consulting described its task as “Liberty Utilities Management and Operations Audit,” this is not in fact a “management audit,” which by definition is broad-reaching. The term “management audit” was intentionally not used in the Settlement Agreement or Attachment 7. At the hearing on the Settlement, one of the Staff witnesses testified:

We have required audits of companies in the past. This is not -- well, for instance, sometime in the last 1990's, the Commission had a independent consultant do a management audit of what was then PSNH. In the early 2000's, there was a similar, although more limited, audit done of Verizon by an independent consultant. And, while this is not a comprehensive management audit, it's styled loosely on that, and more targeted and focused to the areas that we know to be of concern.

Tr. At 35, lines 4-12. Thus, while Liberty Consulting may have conducted management audits of utilities in the past and seeks to use the same method of analysis here that it has used in those endeavors, its examination in this case must necessarily be tailored to the express agreement between the parties that is embodied in the Settlement.

14. The Company has engaged in discussions and communications with Commission Staff and Liberty Consulting in an attempt to resolve the dispute regarding the appropriate scope of this targeted audit, but to date those discussions have been unsuccessful. Inquiry into the areas beyond the scope of the audit will result, not only in a significant use of Company time and resources, both at the local and parent company levels, but also increased costs incurred by Liberty Consulting, which will ultimately be charged to the Company and borne by the Company's customers. Through inquiries posed during the hearing on the Settlement Agreement in DG 14-180, cost issues related to this audit were a particular area of concern for the Commission.

15. For these reasons, the Company requests that the Commission schedule a hearing to consider the Company's request, and issue an order limiting the scope of inquiry to that intended by Attachment 7 to the Settlement Agreement.

WHEREFORE, EnergyNorth respectfully requests that the Commission:

- A. Schedule a hearing on this motion;
- B. Issue an order limiting the scope of the audit to New Hampshire-specific customer service and finance issues, and;
- C. Grant such other relief as is just and equitable.

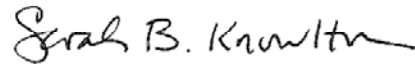


Respectfully submitted,

LIBERTY UTILITIES (ENERGYNORTH  
NATURAL GAS) CORP. D/B/A LIBERTY  
UTILITIES

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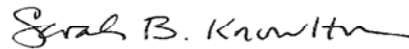


February 2, 2016

By: \_\_\_\_\_  
Sarah B. Knowlton, Esquire

Certificate of Service

I hereby certify that on February 2, 2016, a copy of this Motion for Determination of Scope of Audit Inquiry has been forwarded to the service list in this docket.



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Sarah B. Knowlton