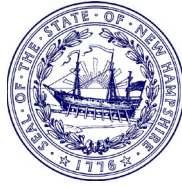


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DEPARTMENT OF ENERGY
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April 19, 2024

Daniel C. Goldner, Chairman
New Hampshire Public Utilities Commission
21 South Fruit Street
Concord, NH 03301

Re: DE 23-039; Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty; Request for Change in Distribution Rates; Department of Energy Response to Liberty's Proposed Scope for Consulting Project

Dear Chairman Goldner:

On March 15, 2024, Liberty had provided an "Amendment to an Engagement Letter between PwC [PricewaterhouseCoopers LLP] and Client [Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty] dated February 9, 2024." On April 15, 2024, Liberty provided the Public Utilities Commission (Commission) with three additional documents related to this engagement:

- A 10-page signed engagement letter with PricewaterhouseCoopers LLP (PwC) dated February 9, 2024
- a 2-page unsigned, undated "Detailed Description of Work."
- A 39-page unsigned, unidentified report titled Liberty Utilities (Granite States (sic) Electric) Corp., Review of Accounting Data, dated April 5, 2024.¹

The Department of Energy (Department or DOE) herein provides its position on scope of this engagement and on the engagement more generally, despite the report having been already completed.² For purposes of this letter, DOE assumes that the scope of the engagement is contained in the February 9th 10-page letter, the March 15th amendment, and the 2-page Detailed Description of Work. Hereinafter, for convenience,

¹ The report is not on any letterhead that the DOE can identify, and p. 1 starts with pronouns "we" and "our" without identifying the underlying subjects. Later (at p. 4) the report provides background information for Sean P. Riley, Partner and Alan Felsenthal, Managing Director, and states that "Sean, Alan, and other personnel working under their supervision and direction have analyzed supporting documentation and information relevant to the issues on this engagement."

² This letter does not address the substance of the 39-page report.

these three documents will be considered to comprise the Liberty/PwC Final Scope (despite the April 4 report not being provided on PwC letterhead).

The Commission's Procedural Order dated April 2 in this matter required Liberty to cooperate with the Department and all other parties to develop a mutually agreeable scope of work for the PwC report, to be filed with the Commission no later than April 15, 2024. The parties met on March 19 and again on April 9 to discuss the scope of the project. By letter dated April 15, 2024, Liberty concluded that Liberty "did not receive any specific requests to change the scopes [from the Department] other than that the work be conducted as an audit." Liberty April 15 Letter at p. 1.³

The Department respectfully disagrees with Liberty's dismissive assessment concerning the input DOE provided on the scope of the PwC project. Attached to this letter is the DOE Proposed Scope, which the Department first provided to Liberty on March 18. DOE's Proposed Scope contained five unambiguous elements. Liberty's April 15 letter stated that the parties were not able to reach agreement on scope. To be clear, from the Department's view, no consensus or near consensus on project scope was reached at the March 19 or April 9th discussions.

In the Department's view, several key elements of the DOE Proposed Scope were not incorporated in the Liberty/PwC Final Scope.

- First, the DOE Proposed Scope, Items 2 and 3 call for a financial audit of both 2022 and 2023 books and records (to establish the accuracy of that information for setting rates). The Final Liberty/PwC scope states clearly that the project is not an audit. PwC states clearly it "will not verify or audit any information provided to it." Liberty/PwC Final Scope at p. 5.
- Second, the DOE Proposed Scope, Item 3 calls for Liberty to produce and PwC to review a revenue requirement based on 2023 information. Liberty has stated that it is not calculating a revenue requirement based on 2023 information and therefore PwC will not be reviewing such a calculation. Liberty March 21 letter at 2.
- Third, as Liberty acknowledges, PwC will not be conducting a management audit of Liberty's decision to file this rate case while knowing that a problematic SAP implementation occurred during the test year.

³ On March 21, in the companion gas rate case, DG 23-067, Liberty had submitted a letter that stated at p. 3 that the Final Liberty/PwC Scope reflected all but one of the Department's recommendations. "This [management/compliance audit to examine Liberty's decision to submit a rate increase request based on a 2022 Test Year knowing that SAP implementation occurred during the test year] is the only DOE recommendation that the Company has not incorporated into the enclosed, revised scope of work."

- Fourth, DOE Item 5 calls for an IT audit of the SAP conversion, including reviewing Liberty’s predictions on the length of time needed before the new system would be stable and reliable, as compared to actual experience. The PwC Final scope does not address this element.

Further, DOE believes that the Liberty/PwC Final Scope raises some significant questions about the validity of the project and the report. First, despite Liberty’s April 15 letter referring to “PwC report” and “PwC review”, PwC appears to disassociate itself from the report by stating “the aforementioned written expert report provided by Sean Riley, a PwC Partner, will not be a PwC Branded Deliverable/report.” Final Liberty/PwC Scope at p. 3. In the Department’s view, this puzzling provision raises questions about the extent to which PwC will endorse the findings in the report.

Second, in the Liberty/PwC Final Scope at p. 5, PwC states clearly that “PwC’s role under this engagement letter is advisory only. PwC will not verify or audit any information provided to it.” Further, the Detailed Description of Work at p. 1 states that PwC will review and analyze Granite State reconciliations of actual financial information and data (trial balance) for 2022 and 2023 to Liberty annual reports and rate filing. Importantly, this analysis will use Liberty’s trial balance, which contains account balances, but no detailed information explaining the nature of the costs contained in those account balances. PwC will not be examining Liberty’s general ledger. This reinforces DOE’s long held concern that PwC, without undertaking any independent analysis of Liberty’s general ledger, will simply review the same information Liberty has already produced and will report to the Commission exactly what Liberty has reported, *i.e.*, that in Liberty’s view, the 2022 books are reliable for ratemaking.

Third, although 12 plus pages long, the DOE finds the only substantive statement of what PwC will do and produce on pp. 1-2 of the Liberty/PwC Final Scope, which is then largely repeated (with some additional provisions) on p. 2 of the Detailed Description of Work and extended to cover 2023 in the March 15 Amendment. The remaining pages in the Final Liberty/PwC Scope appear to consist of disclaimers, limitations and other contractual terms that do not address the substance of the work to be done. Without more, this PwC’s review will not respond to or allay the concerns raised by the DOE in its Motion to Dismiss filed December 13, 2024.

- The Liberty/PwC Final Scope at p.1 essentially states only that PwC will provide an expert witness report, and that PwC will read relevant information, conduct interviews with Liberty, and analyze work that Liberty has already done concerning variances between Liberty’s FERC Form 1 and the rate filing. The Detailed Description of Work adds that PwC will review Liberty’s process and controls to assess Liberty’s conversion to SAP, including testing of the converted general ledger account balances to regulatory accounts. This SAP conversion review could be useful to the key question in this case (*i.e.*, is Liberty’s 2022 general ledger is reliable for rate setting) if the

objective of that review is to identify and correct for additional mapping errors made during the conversion. However, that objective is not clearly stated in the Final Scope.

- Similarly, the Liberty/PwC Final Scope at p. 1 states that PwC will perform a root cause analysis of the magnitude and nature of identified variances. The Detailed Description of Work adds that the purpose of this analysis is to “help determine where, if applicable, further updates are required....” Such analysis could be useful to the key question if the results of the analysis were used to examine whether other errors (*i.e.*, errors *not yet identified*) have occurred. However, because the scope is narrowed to “gain[ing] an understanding of, where possible, the potential causes of *identified* potential gaps/variances,” it does not appear that this exercise will identify any additional mapping errors (emphasis added).
- Further, the Liberty/PwC Final Scope at p. 2 (and on p. 1 of the Detailed Description of Work) states that PwC will assess the data used by Liberty for the rate case and assess Liberty’s basis for asserting that the data is reliable. This task would be critical to a useful review if by “assessing the data” PwC means it will review the data to confirm its accuracy. But that appears not to be within the Liberty/PwC Final Scope, because at p. 5 (as noted above) PwC states that “PwC will not provide an audit, accounting, or attest opinion or other form of assurance. PwC will not verify or audit any information provided to it.” The Detailed Description of Work at p. 2 refers to reviewing the mapping of accounts for “potential adjustments”, but it is unclear if that refers to identifying additional mapping or other errors in Liberty’s underlying data.

For example, the DOE’s Motion to Dismiss at 10 highlights significant discrepancies in account 926 (Pensions and Benefits) between Liberty’s books, its FERC Form 1, and its rate filing. It appears that PwC does not plan to look behind the balance to determine if the general ledger balance contains an accurate portrayal of Liberty’s Pensions and Benefits (an important figure for setting rates). Instead, PwC plans to examine Liberty’s reasons why that general ledger amount is different in the FERC Form 1 and the rate case schedules. DOE does not see how such a review will give sufficient assurance that rates are being set on reasonable, accurate amounts.

Finally, the Liberty/PwC Final Scope raises doubt about the independent nature of this report. At the January 4 hearing in this case, when Liberty introduced the idea of a third-party review, Liberty described the review as independent. Transcript, January 4, 2024 at 61. Liberty described PwC as independent again at a hearing on January 23. Transcript, January 23, 2024 at 276. Yet, the Final Liberty/PwC Scope at pp. 1-2, calls

for an “expert witness report” and states that PwC “will share its industry experience, subject-matter knowledge and/or knowledge of current industry practices for Client’s [Liberty’s] consideration in addressing Client’s objectives....” In other words, PwC will advise Liberty on how to meet Liberty’s objective, which is to have the rate case proceed using 2022 information. This is significantly different from an independent firm objectively apprising the Commission and parties as to the reliability of Liberty’s 2022-based calculations, which is what the DOE would have expected when Liberty proposed undertaking an independent review and what DOE’s proposal seeks to accomplish.

Conclusion:

Since filing its Motion to Dismiss, the Department has maintained that the appropriate path forward in this case is dismissal of Liberty’s rate increase petition based on concerns about the reliability of the 2022 test year financial data. Based on the Liberty/PwC Final Scope, the Department continues to have serious concerns that the PwC expert witness review and report will not address the underlying issues with the test year data. Accordingly, the Department reaffirms its position that dismissal of this rate increase petition is the appropriate course for the Commission to follow.

Alternatively, given the importance of the Commission’s decision about whether to proceed with this case, it follows that the Commission should base its decision on the best available information. The Department’s position on this issue had been consistent, *i.e.*, that the accounting review required by the Commission must be of audit quality performed by a third party that is truly independent, meaning with no existing or prior business relationships with Liberty, any Liberty affiliate, or the parent company Algonquin Power & Utilities Corp. Only an independent audit could provide the Commission with a reliable and thorough assessment grounded in both objectivity and professional skepticism. This is what the Department’s proposed scope requires.

As noted above, the Liberty/PwC Final Scope states that the proposed expert witness report is not an audit, nor will it be branded as a PwC work product. Therefore, the Department strongly urges the Commission to reject the Liberty/PwC Final Scope as inadequate, approve the DOE Proposed Scope, and follow the process the Commission employed in Docket No. DG 14-180 (Liberty’s first gas rate case in New Hampshire), which was to retain its own independent auditor.⁴

Consistent with the Commission’s current practices this letter is being filed only in electronic form.

Sincerely,

/s/ Paul B. Dexter

Paul B. Dexter
Legal Director

⁴ See Docket No. DG 14-180, Order No. 25,797 at 15 (June 26, 2015).

DG 23-067 – Liberty Gas Rated Case
Department of Energy
Proposed Scope of PWC Review
3/18/24

The scope of the PwC review should encompass the following:

1. Review and assess whether Liberty addressed all Audit Issues in DOE Final Audit Report dated 1/30/24.
2. A financial audit of actual 2022 accounting data and Liberty's use of that data to establish the 2022 test year. PWC should assess the suitability of that 2022 test year data for developing the 2022 based revenue requirement presented in this case.
3. A financial audit of actual 2023 accounting data. Liberty to calculate a 2023 test year and revenue requirement and PWC to review and assess Liberty's use of that data to establish the 2023 test year. PWC should assess the suitability of that 2023 data for developing a 2023 based revenue requirement.
4. A management/compliance audit to examine Liberty's decision to submit a rate increase request based on a 2022 Test Year knowing that SAP implementation occurred during the test year, including an analysis of how that decision impacted ratepayers and Liberty from a financial perspective.
5. An Information Technology (IT) audit to determine the sufficiency and thoroughness of Liberty's preparations for conversion to the SAP system including a review of Liberty's pre-conversion and post-conversion testing efforts. PWC should review how long Liberty predicted it would require for the SAP system to stabilize, that is the length of timeframe - six months, three months etc. - needed to observe the quality of SAP system generated data to ensure SAP system stability and reliability, PWC should assess how Liberty's predictions compared to actual experience, including whether mapping issues from SAP conversion have all been identified and corrected.

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