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April 18, 2024

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

Re: DG 23-067; Liberty Utilities (EnergyNorth Natural Gas) 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:

By letter dated March 21, 2024, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty provided the Public Utilities Commission (Commission) with a 10-page signed engagement letter followed by a two-page unsigned "Detailed Description of Work" (hereinafter Liberty/PwC Final Scope) concerning a report Liberty plans to submit in this matter.¹ The report is to be prepared by PricewaterhouseCoopers LLP (PwC).

The Commission's Procedural Order dated April 2 required Liberty to cooperate with the Department of Energy (Department or DOE) 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 PwC 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."² Liberty April 15 Letter at p. 1.

The Department respectfully disagrees with Liberty's dismissive assessment concerning the input DOE provided on the scope of the PwC project. In this letter DOE provides the Commission detailed information on DOE's suggested scope (as previously provided to Liberty on at least two occasions), and on DOE's view of the PwC project

¹ It is not clear to DOE that the Detailed Description of Work is intended to be part of the PwC/Liberty engagement letter as it is not signed by either party. For purposes of this letter, DOE assumes it is meant to be incorporated into the Liberty/PwC Final Scope.

² On April 15, Liberty also provided a completed report from PwC (dated April 5, 2024) in the companion electric rate docket, DE 23-039, despite being directed by the Commission on April 2 to continue to discuss an appropriate scope for the project. This letter does not address the electric PwC Report.

more generally.³

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 March 21 Letter stated that the Final Liberty/PwC Scope reflected all but one of the Department's recommendations.⁴ 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.
- 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 forthcoming gas report. First, despite Liberty's March 21 Letter referring to "PwC work" and a "PwC report", PwC appears to disassociate itself from the report by stating "the aforementioned written expert report provided by Sean

³ DOE provides this letter on scope despite PwC having filed its report in the electric case and presumably work on a gas report is well underway.

⁴ "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." Liberty's March 21 letter at 3.

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 Final Liberty/PwC Scope at p. 1 states that PwC will analyze “EnergyNorth’s reconciliations of information and data (trial balance)” 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 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. 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 February 16, 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 F-16 Reports 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. 2 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 pp. 1-2 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 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 7, footnote 2, highlights significant discrepancies in account 920 (A&G Salaries) between Liberty’s general ledger balance, its F-16 Annual Report, 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 A&G Salaries (an important figure for setting rates). Instead, PwC plans to examine Liberty’s reasons why that general ledger salary amount is different in the F-16 Annual Report 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. In Liberty’s Motion to Stay dated February 5, 2024, Liberty repeatedly referred to this report as independent. Motion to Stay Proceeding at pp.1, 5 and 7. Yet, the Final Liberty/PwC Scope at p. 1, calls for an “expert witness report.” Further, the Final Liberty/PwC Scope at p. 2 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.⁵

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

Cc: Service List

⁵ See Docket No. DE 14-180, Order No. 25,797 at 15 (June 26, 2015).

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