

STATE OF NEW HAMPSHIRE

Intra-Department Communication

DATE: January 30, 2024

FROM: Division of Enforcement Audit Staff

SUBJECT: Liberty Utilities (EnergyNorth Natural Gas) Corp.
d/b/a Liberty Utilities
Final Audit Report DG 23-067

TO: Thomas Frantz, Director, Regulatory
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INTRODUCTION

On June 26, 2023 Liberty Utilities (Liberty, the Company) filed with the Commission a notice of intent to file for an increase in rates. On July 27, 2023, the Company filed a petition for a permanent distribution rate increase of \$27,549,837 and a request for a temporary rate increase of \$15,287,114 both to be effective October 1, 2023. The filing is based on a twelve month test year ending December 31, 2022.

Commission Order 26,122, issued April 27, 2018 in Docket DG 17-048, consolidated the Keene Division with Liberty's other operating areas for distribution rate purposes. The Keene cost of gas recovery mechanism is still separate from EnergyNorth. As a result, Audit has conducted a financial audit of the books and records for the 2022 test year of EnergyNorth and Keene, with this report resulting.

The prior EnergyNorth rate case and related audit was docketed as DG 20-105 with a test year ended December 31, 2019. The final audit report was issued on December 17, 2020.

References within this report to any filing schedules are those submitted into the docket on July 27, 2023, unless otherwise noted.

CORPORATE STRUCTURE

As noted within the F-16 PUC annual report, Liberty Utilities (EnergyNorth Natural Gas) Corp. is noted to be:

- a wholly owned subsidiary of Liberty Energy Utilities (New Hampshire) Corp.
- which is a wholly owned subsidiary of Liberty Utilities Co.
- Liberty Utilities Co. is wholly owned by Liberty Utilities (America) Holdco Inc.

Audit Issue #1 General Ledger Settlement Set-up

Background

On October 1, 2022, Liberty converted from the legacy Great Plains accounting system and Cogsdale billing system to SAP. Part of the conversion to SAP was described as *“The job system in SAP is known as WBS elements (Work Breakdown Structure). These are used to record and track expenses to specific areas of the business: Capital, Intercompany, and Operations and Maintenance. The process that does this is called settlements. In this process, WBS activities are reflected in 7xxxxx and 8xxxxx natural GL accounts and allocated to be reflected in income statement or balance sheet accounts. Once the settlements are run, each WBS should be zero. When a WBS is not zero it means a transaction, while in the GL, did not “settle” where it needed to be reflected. This could be either a coding issue or a timing issue.”*

Issue

Audit noted that coding issues, which Liberty identified when compiling the F-16 annual report and rate filing resulted in accounts and/or transactions that appeared in one account in SAP, but were reflected in another account, or not included in the revenue requirement schedules. Audit requested clarification of when the reclassifications and/or “mapping issues” were corrected, and was told that the corrections were not reflected in the SAP system in 2022. Rather, *“throughout 2023, as these [issues] have been identified, we are correcting those through manual journal entries or updating the treatment of WBS in the system, as applicable.”*

As a result, the 2022 F-16 and rate filing revenue requirement schedules do not actually agree with the general ledger accounts at the end of the test year, without the addition to or removal of the numerous “adjustments” which did not take place during the test year, or at the year-end closing of the financial records.

Specifically, some (*but unknown if all*) variances from the SAP general ledger to the revenue requirement schedules within the filing were identified by Audit to be:

SAP	SAP	
Row Labels	Sum of DEC Balance	verified to the F-16 annual report
1010	709,125,447.39	these balances, combined with account 1140, agree with the annual report balance sheet, line 2
1012	1,015,663.27	
1050	852,304.56	
1060	108,719,861.96	however, 1140 is GOODWILL and should not be in Plant 819,713,277.18
1070	13,240,607.37	agrees with F-16, balance sheet line 3
1080	(229,886,323.88)	the sum of these, \$249,582,833.13 agrees with the annual report balance sheet line 5
1081	(264,898.15)	
1110	(19,431,611.10)	
1140	28,219,103.73	847,932,380.91
1210	146,948.70	agrees with annual report balance sheet line 10
1220	(133,283.70)	agrees with annual report balance sheet line 11
1230	3,047,227.00	F-16 = \$0...see account 2110 below
1310	(44,979,438.02)	agrees with the annual report balance sheet line 22
1350	4,740.00	agrees with the annual report balance sheet line 24
1360	-	
1420	36,027,873.19	F-16=\$37,291,338, diff of \$1,653,464.81
1430	1,111,874.74	agrees with the annual report balance sheet line 28
1440	(3,315,899.32)	agrees with the annual report balance sheet line 29
1460	1,385,038,757.53	agrees with the annual report balance sheet line 31
1510	1,163,995.50	combined with #1641 agrees with BS account 151
1540	7,232,230.10	agrees with annual report balance sheet line 35
1630	(607.68)	agrees with annual report balance sheet line 38
1641	10,465,728.39	combined with #1510 agrees with BS account 151
1642	155,862.93	agrees with annual report balance sheet line 40
1650	5,609,915.70	agrees with annual report balance sheet line 41
1730	30,763,515.32	agrees with annual report balance sheet line 45
1740	(386,460.22)	combined, these 2 sum to \$1,137,910.70, but annual report balance sheet line 46 = \$1,101,543, diff of \$36,367.70
1750	1,524,370.92	
1810	(7,315.14)	agrees with annual report balance sheet line 53
1823	34,591,616.29	F-16=\$33,264,324 variance of \$1,327,293
1831	1,825,933.85	agrees with annual report balance sheet line 57
1832	-	
1840	(214,850.39)	combined these 2 = \$(80,212) which agrees with the annual report line 58
1843	134,638.27	
1860	36,404,722.09	F-16= 36,204,997, variance of \$199,725.09
2010	(124,147,057.70)	agrees with annual report account 201
2110	(3,047,227.00)	F-16=0...see account 123 above
2160	(102,331,799.70)	agrees w beg bal account 216, retained earn-ok
2190	729,693.34	agrees with annual report account 219
2230	(71,818,181.82)	combined with account 257 = \$159,600,000, F-16 account 223
2270	(603,011.77)	agrees with annual report account 227
2282	(24,617,774.13)	agrees with annual report account 228.4
2283	(5,440,137.04)	agrees with annual report account 228.3
2320	(3,419,934.01)	agrees with annual report account 232
2330	-	
2340	(1,506,811,288.78)	agrees with annual report account 234
2350	(3,027,601.89)	agrees with annual report account 235
2360	-	agrees with annual report account 236
2370	(4,699,352.73)	agrees with annual report account 237
2420	(33,911,364.89)	agrees with annual report account 242
2430	(412,651.50)	agrees with annual report account 243
2520	900.00	agrees with annual report account 252
2530	-	agrees with annual report account 253
2540	(37,105,421.74)	agrees with annual report account 254
2570	(87,781,818.18)	combined with account 223=\$159,600,000, F-16 account 223
2830	(81,334,034.02)	agrees with annual report account line 281-283

7100	1,388,068.78	sum of these four accounts agrees with the	RR-EN-2-1	\$ 1,461,346.00	\$ (73,277.22)
7170	147,432.99	annual report O&M page 34 line one and	RR-EN-2-1	\$ 34,408.00	\$ 113,024.99
7350	228,889.75	page 51	RR-EN-2-1	\$ 434,858.00	\$ (205,968.25)
7420	102,511.76		RR-EN-2-1	\$ 257,313.00	\$ (154,801.24)
8040	(21,316,737.09)	ok to O&M page 35 account 804	RR-EN-2-1	\$ 10,467,995.00	huge variance
8041	19,348,136.26	ok to O&M page 35 account 804.1	RR-EN-2-1	8041 part of 8040?	\$ (12,436,595.83)
8050	(1,074,189.83)	these 2 sum to \$105,879,815 which agrees with the	RR-EN-2-1		
8051	106,954,005.14	annual report O&M page 35 account 805 \$105,879,815	RR-EN-2-1	\$ 105,879,815.00	\$ -
8081	7,481,472.49	ok to O&M page 35 account 808.1			
8082	(11,597,244.98)	ok to O&M page 35 account 808.2	RR-EN-2-1	\$ (4,115,772.00)	\$ (0.49)
8440	(2,472.23)	ok to O&M page 37 account 844.2		\$ -	
8442	-		RR-EN-2-1	\$ 27,195.00	\$ (29,667.23)
8462	6,429.59	ok to O&M page 37 account 846.2	RR-EN-2-1	\$ 7,036.00	\$ (606.41)
8500	-	ok to O&M page 37 account 850	RR-EN-2-1	\$ 306.00	\$ (306.00)
8630	7,810.65	ok to O&M page 38 account 863	RR-EN-2-1	\$ 8,386.00	\$ (575.35)
8700	698,972.94	ok to O&M page 38 account 870	RR-EN-2-1	\$ 526,329.00	\$ 172,643.94
8710	318,576.87	ok to O&M page 38 account 871	RR-EN-2-1	\$ 301,395.00	\$ 17,181.87
8740	4,268,785.88	ok to O&M page 38 account 874	RR-EN-2-1	\$ 4,922,998.00	\$ (654,212.12)
8750	12,278.92	ok to O&M page 38 account 875	RR-EN-2-1	\$ 52,551.00	\$ (40,272.08)
8780	1,086,521.39	ok to O&M page 38 account 878	RR-EN-2-1	\$ 1,268,364.00	\$ (181,842.61)
8790	476,715.00	ok to O&M page 38 account 879	RR-EN-2-1	\$ 614,499.00	\$ (137,784.00)
8800	3,664,128.93	ok to O&M page 38 account 880	RR-EN-2-1	\$ 1,378,633.00	\$ 2,285,495.93
8810	20,428.73	ok to O&M page 38 account 881	RR-EN-2-1	\$ 36,016.00	\$ (15,587.27)
8850	-	ok to O&M page 38 account 885	RR-EN-2-1	\$ 110,719.00	\$ (110,719.00)
8860	539,426.38	ok to O&M page 38 account 886	RR-EN-2-1	\$ 262,296.00	\$ 277,130.38
8870	1,641,219.54	ok to O&M page 38 account 887	RR-EN-2-1	\$ 2,306,529.00	\$ (665,309.46)
8890	-	ok to O&M page 38 account 889	RR-EN-2-1	\$ 2,487.00	\$ (2,487.00)
8920	341,912.43	ok to O&M page 38 account 892	RR-EN-2-1	\$ 559,259.00	\$ (217,346.46)
8930	260,450.06	ok to O&M page 38 account 893	RR-EN-2-1	\$ 339,700.00	\$ (79,249.94)
8940	258,656.19	ok to O&M page 38 account 894	RR-EN-2-1	\$ 368,744.00	\$ (110,087.81)
9010	114,224.32	ok to O&M page 38 account 901	RR-EN-2-1	\$ 149,424.00	\$ (35,199.68)
9020	1,136,505.15	ok to O&M page 38 account 902	RR-EN-2-1	\$ 453,911.00	\$ 682,594.15
9030	2,203,345.33	ok to O&M page 38 account 903	RR-EN-2-1	\$ 2,107,953.00	\$ 95,392.33
9040	1,153,435.45	ok to O&M page 38 account 904	RR-EN-2-1	\$ 1,153,436.00	\$ -
9050	44,994.27	ok to O&M page 38 account 905	RR-EN-2-1	\$ 60,701.00	\$ (15,706.73)
9090	92,246.97	ok to O&M page 39 account 909	RR-EN-2-1	\$ 92,247.00	\$ (0.03)
9120	268,555.38	ok to O&M page 39 account 912	RR-EN-2-1	\$ 253,928.00	\$ 14,627.38
9130	0.00	ok to O&M page 39 account 913	RR-EN-2-1	\$ 82,021.00	\$ (82,021.00)
9160	59,058.91	ok to O&M page 39 account 916	RR-EN-2-1	\$ 59,059.00	\$ (0.09)
9200	15,957,477.35	ok to O&M page 39 account 920	RR-EN-2-1	\$ 1,706,504.00	\$ 14,250,973.35
9210	6,280,347.64	ok to O&M page 39 account 921	RR-EN-2-1	\$ 6,406,776.00	\$ (126,428.36)
9220	(8,946,903.70)	ok to O&M page 39 account 922	RR-EN-2-1	\$ (8,941,610.00)	\$ (5,293.70)
9230	5,756,461.79	ok to O&M page 39 account 923	RR-EN-2-1	\$ 5,855,336.00	\$ (98,874.21)
9240	130,113.63	ok to O&M page 39 account 924	RR-EN-2-1	\$ 130,114.00	\$ (0.37)
9250	1,423,337.76	ok to O&M page 39 account 925	RR-EN-2-1	\$ 1,423,852.00	\$ (514.24)
9260	5,238,413.62	ok to O&M page 39 account 926	RR-EN-2-1	\$ 7,240,313.00	\$ (2,001,899.38)
9280	1,090,204.02	ok to O&M page 39 account 928	RR-EN-2-1	\$ 1,090,204.00	\$ 0.02
9302	(3,221,497.74)	ok to O&M page 39 account 930.2	RR-EN-2-1	\$ (3,121,419.00)	\$ (100,078.74)
9310	119,834.59	ok to O&M page 39 account 931	RR-EN-2-1	\$ 125,425.00	\$ (5,590.41)
9320	0.00	ok to O&M page 39 account 932	RR-EN-2-1	\$ 350,946.00	\$ (350,946.00)

Liberty provided a variety of summaries detailing unverified line item entries and/or accounts that comprise the variances. Some of those reported figures indicate expense accounts in balance sheet accounts, balance sheet accounts in the wrong balance sheet accounts, and

expense accounts in the wrong expense accounts. Audit is unable to determine if the annual report is accurate, or if the filing is accurate.

Audit Recommendation

Liberty should have ensured that the actual financial records within the new SAP system were accurate, prior to filing the current rate case.

All transactional or system mapping adjustments should have been addressed. Because of the quantity of noted adjustments, and the time required to identify variances among the F-16 filing balances, Audit is unable to determine if the reported adjustments are accurate nor if they represent all of the adjustments that should have been done.

As noted in the DE 23-039 audit report issued October 23, 2023, Audit appreciates the efforts of Liberty, and also understands that the external auditors ensured that the “natural” accounts within SAP complied with the corporate roll-forward requirements.

Liberty must ensure that the financial accounts of EnergyNorth truly support the accounts as reflected in the F-16 and the filing. Mapping issues, or translations of portions of accounts are not consistent with the FERC UsoA.

Company Comment

Liberty EnergyNorth (“Liberty”) appreciates Audit’s review and efforts during its audit, specifically, recognizing that additional efforts by Audit were required to translate how accounts and transactions previously reflected in the Company’s legacy system now appear in SAP. As a result of this transition, additional audit explanations were necessary that required additional time and attention from Audit. The Company also appreciates that it needs to take the lead on providing those “translations” and making the transition to the new accounting system as seamless as possible for Audit and other parties in this proceeding.

That said, the Company does not agree with Audit’s conclusion that the Company failed to ensure that its actual financial records within the new SAP system were accurate prior to filing the pending rate case. The financial records are accurate. There are simply some differences in the way that costs are recorded in one system or the other. These differences are known and allow for “mapping” of data from the new system to the protocols required for financial reports, such as the F-16. Liberty has also provided information to Audit to substantiate all adjustments. These adjustments were identified before the preparation of the revenue requirement and were correctly reflected in that filing.

Audit Conclusion

As noted in the grid above, the income statement accounts reflected on the revenue requirement filing do not agree with the SAP accounts. Throughout the text of this report, identification of balance sheet accounts that did not agree with the year-end SAP balances have also been documented.

Audit was provided reconciliations of many of the variances, but detailed testing of those to ensure the reported ending balances are correct was not be accomplished.

Audit therefore cannot conclude, as the Company has, that the financial records are accurate.