**Public Service Company of New Hampshire d/b/a Eversource Energy**
**Docket No. DE 24-035**

**Date Request Received: October 04, 2024** **Date of Response: October 18, 2024**
**Data Request No. DOE 2-001** **Page 1 of 1**

**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

Reference Independent Accountant's Report dated September 3, 2024, of Deloitte & Touche LLP at page 1. Please provide a copy of Eversource's engagement letter or contract with Deloitte & Touche LLP ("Deloitte"), including the total planned and actual costs of the engagement, and a copy of Deloitte's audit plan for this engagement.

**Response:**

Please see Attachment DOE 2-001 Confidential for a copy of the executed engagement letter regarding the Agreed Upon Procedures ("AUP") report issued by Deloitte & Touche LLP. As outlined on page 3 of the engagement letter, the costs for the AUP were not to exceed $150,000, and the total costs actually incurred for the engagement were $121,500.

*Please note that Eversource has a good faith basis for seeking confidential treatment of the attached document pursuant to Puc 203.08(d), and intends to submit a motion for confidential treatment regarding such document at or before the commencement of the hearing in this proceeding.*

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**Data Request No. DOE 2-002** **Page 1 of 4**

**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

Reference PUC Order No. 27,044 dated August 8, 2024, at pages 2-3 (Order), and Independent Accountant′s Report dated September 3, 2024, of Deloitte & Touche LLP at page 1 (“Deloitte Report” or “Report”). The Order states: “With respect to the audit requirement, the Commission′s view is that the best practice when reviewing rate adjustments is to receive an audit of the underlying expenses for the prior year subject to reconciliation before reviewing and approving proposed rates . . . an audit provides the best evidence that the expenses the utility is seeking to recover through the rates at issue are justified and accurate.” The Deloitte Report states: “We make no representation regarding the appropriateness of the procedures either for the purpose for which our report has been requested or for any other purpose. Accordingly, this Report may not be suitable for either the purpose of which this report has been requested or for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. . . . We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter. Accordingly, we do not express such an opinion or conclusion.”

a. The Commission′s Order specifically directed Eversource to have its auditor, Deloitte & Touche LLP, perform an audit of the expenses presented for recovery in this docket. Based on Deloitte′s description of the engagement and the work it performed, Deloitte did not perform an audit or review. Please explain how the Deloitte Report is in compliance with the Commission′s Order. Please explain why an audit was not performed.

b. Given that the Deloitte Report is not an audit and may not be suitable for the purpose of which the report was requested, please explain how this type of report serves as a best practice for reviewing rate adjustments and constitutes the best evidence for the Commission that the expenses Eversource is seeking to recover through the rates are justified and accurate.

c. Given that the Deloitte Report is neither an audit nor a review, please describe and define what type of report it is and what sections of the AICPA recognize and support such a report.

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**Response:**

a. In Order No. 27,021, the Commission ordered the Company to perform *"audit sampling of the 2023 vegetation management costs, 2023 lost base distribution revenues, and 2023 property tax expenses...."*[1] The order also instructed the Company to *"retain an independent third-party auditor on or before August 1, 2024 to conduct the aforementioned audit sampling. The Company shall file the results, based on the audit sampling, with the Commission on or before September 3, 2024."*

On August 2, 2024, the Company filed a letter notifying the Commission that on August 1, 2024 in compliance with Order No. 27,021 the Company *"engaged its long-term auditor, Deloitte and Touche LLP ("Deloitte"), to perform the relevant scope of work, which will involve an "agreed-upon procedures" approach in which Deloitte will conduct limited sampling and review of supporting information and calculations related to three Regulatory Reconciliation Adjustment ("RRA") cost components: (1) vegetation management expenses, (2) property tax expenses, and (3) lost base revenue from net metering calculations."*[2] In that letter, the Company noted it was aware of recent comments from the Department of Energy ("DOE") and the Office of Consumer Advocate ("OCA") who requested the Commission remove the "audit sampling" requirement and asked the NHPUC to inform the Company by August 8th if this requirement was still needed, so the Company would not incur unnecessary costs related to the "audit sampling" previously ordered to be performed pursuant to Order No. 27,021.
On August 8, 2024, the Commission issued Order No. 27,044, in which it denied the request *"to amend the audit requirement in Order No. 27,021."*[3] That order in no way modified the Commission's prior directive for the Company to engage a third-party firm to conduct "audit sampling" of relevant RRA cost components.

Based on the Commission's denial of the DOE's and OCA's motions on August 8th, the Company proceeded with its previous engagement with Deloitte to perform *"audit sampling,"* as directed in Order No. 27,021 and affirmed in Order No. 27,044, through an agreed upon

[1] DE 24-035 Order No. 27,021 Issued June 20, 2024 page 2.
[2] DE 24-035 Eversource Energy Update Regarding Third Party Audit Sampling Status, filed on August 2, 2024.
[3] DE 24-035 Order No. 27,044 Issued August 8, 2024 page 4.

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procedures attest engagement, of which all parties were notified in the Company's August 2nd communication.

Under the standards of the American Institute of Certified Public Accounts ("AICPA") the Company had the options to engage a third-party auditor to issue an examination report, a review report, or an agreed upon procedures report to meet the "audit sampling" requirement of the Commission. There is no option to perform an actual "audit" or issue an "audit report" on a sample of costs included within a regulatory deferral mechanism. As a result, the Company evaluated each option and consulted with its independent third-party audit firm to reach the conclusion that an agreed upon procedures report was the best path forward to conduct "audit sampling" of the RRA cost components as ordered in Order No. 27,021 and affirmed in Order No 27,044.

b. As outlined in the response above, the Company believes the Agreed Upon Procedures report and engagement is in compliance with Order No 27,021, which required the Company to perform *"audit sampling of the 2023 vegetation management costs, 2023 lost base distribution revenues, and 2023 property tax expenses..."*[4] In order to comply with the required "audit sampling," the Company considered the three types of attest engagements that are available under the AICPA standards: (1) an examination report; (2) a review report; or (3) an agreed upon procedures report. In the Company's review of the AICPA reporting standards options and consultation with Deloitte, the Company determined that an Agreed Upon Procedures engagement was the best approach to complete an "audit sampling" of each cost category included within the 2023 RRA deferral.

In making that decision, the Company evaluated many relevant factors including: (1) the cost of each attest engagement, knowing any costs incurred would be recovered from customers; (2) the time sensitivity to complete each engagement, as only 10.5 weeks was provided to engage, plan, complete and report on the "audit sampling" with a third-party external audit firm; and (3) what each report would provide to the Commission and parties to ensure transparency as to the procedures performed and the associated findings. In evaluating each of those criteria, the Company identified that an Agreed Upon Procedures engagement was the most cost effective for customers, could be completed within the time period required, and would provide the highest level of transparency into the procedures performed and the corresponding results related to the requested "audit sampling" as ordered.

[4] DE 24-035 Order No. 27,021 Issued June 20, 2024 page 2.

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Although an Examination and Review Report under AICPA standards would provide a higher level of assurance, both engagements would have cost a significant amount more to be performed, would have been more challenging to complete within the required time period, and, most importantly, the report issued to the Commission would not outline in detail the actual procedures performed and the results attained. In an examination report, the external audit firm would simply issue a single page opinion regarding an assertion made by management, noting that its opinion is *"within all material respects."* A review report is similar in nature; however, no actual opinion is expressed, rather the audit firm merely notes whether it is aware of any material modifications that are needed to the subject matter. Additionally, for an examination report to be completed, the third-party audit firm would also be required to evaluate the design and implementation of all internal controls over the subject matter. Those types of procedures were not required by the Commission in Order No 27,021, and would result in additional costs incurred to be recovered from customers. Given the Commission's directive to conduct "audit sampling," the Company believed pursuing a report model that would allow Deloitte to outline the specific testing procedures performed for each cost category, as well as the result of those procedures was, important to ensure transparency for the Commission and all docket participants. The Company also consulted Deloitte regarding the attest engagement options and, during those discussions, Deloitte noted there are many instances where the firm has performed AUP engagements to comply with regulatory commission orders, including the sampling and review of expenses included within regulatory deferral mechanisms similar in nature to the RRA.

As a result, the Company believes the agreed upon procedures report issued does serve as a best practice in reviewing rate adjustments, providing transparent detail into the procedures performed, and introducing clear evidence for the Commission to consider that the vegetation management costs, lost base revenues, and property tax expenses included in the RRA are accurate and substantiated.

c. As noted above, there are only three attest engagement options available to the Company under the AICPA standards, none of which include an actual "audit engagement." The options available to the Company to perform the "audit sampling" ordered by the Commission include only: (1) an examination report; (2) a review report; or (3) an agreed upon procedures report. Specific details regarding an Agreed-Upon Procedures Engagement can be found within the AICPA's Statement on Standards for Attestation Engagement No. 19.

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**Data Request No. DOE 2-004** **Page 1 of 3**

**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

Reference Deloitte Report at page 2. Please explain if the overall samples selected in Part I – Vegetation Management Costs and Part II – Property Taxes of the Report are considered statistically significant samples? If so, please provide details calculations of the sample size used including the level of statistical significance, and other relevant sample size factors. If the sample size used was not designed to achieve a specific level of statistical significance, please explain in detail what factors were used to make the sample size determination.

**Response:**

The Company believes both the vegetation management and property tax expense samples are statistically significant and sound. As described in response to DOE 2-003, in determining the sample size, the Company first worked with Deloitte to establish a sampling interval, which was calculated as 5% of the net testing population for each cost category.

Once the sampling interval was established, the Company subjected the total gross vegetation management and property tax expense populations (i.e., the absolute value of all debit and credit expense amounts) to sampling. This was accomplished by first identifying any individual selection that was in excess of the sampling interval, with those amounts automatically selected for testing procedures. Deloitte then divided the remaining gross testing population by the sampling interval to establish the amount of selections required. This sampling model was then used to generate the statistical selections. The Company provides below an illustrative example of the sampling method used to determine the number of selections:

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| | Vegetation Management | Property Tax | |
|---|---|---|---|
| Total Population | | | |
| Debit Population | $ 38,959,384 | $ 45,453,163 | **A** |
| Credit Population | 4,722,520 | 1 | **B** |
| Gross Population | $ 43,681,904 | $ 45,453,165 | **A+B = C** |
| Top Stratum Selections* | - | 11,829,661 | **D** |
| Remaining Population | $ 43,681,904 | $ 33,623,504 | **C-D = E** |
| Sampling Interval | 1,700,000 | 2,200,000 | **F** |
| Number of Selections | 26 | 15 | **E / F** |

* Top stratum selection represents any individual cost amount that is in excess of the sampling interval

The Company and Deloitte did not identify a required testing percentage or population for purposes of the "audit sampling" ordered by the Commission. Predetermining a required testing percentage for each cost category likely would have resulted in a significant increase in selections and would have prevented Deloitte from conducting a statistical sampling model, which provides a sampling basis where each transaction has a chance of being selected based on its proportion to the overall size/percentage of the testing population. Conducting a random or haphazard selection methodology designed to achieve a predetermined sampling percentage or population introduces unnecessary bias into the sampling method, as one is more inclined to make higher dollar value selections to meet the predetermined sample required.

Based on the sampling method described above, Deloitte tested approximately $18.5 million of the $45.5 million of property tax expenses included within the RRA deferral at DE 24-035 Attachment YC/SRA-4 Page 6 Col. B. Approximately $11.8 million of the $18.5 million selected for testing was the result of two individual top stratum selections. This sample amount represents approximately 41% of the total population and is certainly a significant sample size. This testing population included a low volume (232 total municipalities eligible for selection) of higher dollar (average cost value of approximately $195,000) transactions, which inherently produces a larger selection population. No exceptions were identified in Deloitte's testing of the 17 total municipalities selected.

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The vegetation management expense testing population was very different, as it included a much more homogeneous population of high volume (4,307 total expense transactions) low dollar (average expense transaction was only $7,900) transactions. These transactions were almost exclusively third-party invoice/accounts payable transactions, which typically are lower risk in nature, requiring limited judgment, and are processed through the Company's work management system being reviewed/approved by the appropriate subject matter experts. In total, the Company tested approximately $586,000 of the total vegetation management population in the RRA deferral (approximately 2%), in which only one exception was identified, totaling a $419 understatement of the total vegetation management costs (i.e., only 0.001% of the gross population tested). The Company believes this is an appropriate sample given its homogenous, high volume, low dollar nature and the fact that the sample was generated using a statistical sampling method that provides a sampling basis where each transaction has a chance of being selected based on its proportion to the overall size/percentage of the population.

The Company evaluated if a pre-determined testing population was appropriate for the vegetation management population, given its nature of higher volume and lower dollar transactions. However, in order to test a mere 10% of the vegetation management population, Deloitte would have been required to select the 60 highest dollar value transactions. Designing an audit sample of that nature would have more than doubled the total amount of selections, resulting in increased costs to be recovered from customers, and would also have introduced significant bias into the testing sample, because only the largest transactions would have been reviewed for appropriateness. As a result, that method was not selected.

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**Data Request No. DOE 2-007** **Page 1 of 1**

**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

Reference the Report at page 2 Appendix A Part I – Vegetation Management Costs. Did Deloitte review contracts between Eversource and its Vegetation Management contractors to ensure that all hourly rates and other invoiced costs were in compliance with rates established in those contracts?

**Response:**

As outlined within the Agreed Upon Procedures report, each selection was traced and agreed to the underlying invoice, journal entry, and/or other underlying support to ensure the selection was accurate, was incurred in fiscal year 2023, and was appropriately included as a vegetation management cost eligible for recovery through the RRA deferral. Deloitte did not perform a review of the contracts between Eversource and its Vegetation Management contractors, as performing such additional procedures would have resulted in increased costs to be recovered from customers, and that was not identified as a desired procedure in the Commission's Order No. 27,021, which ordered the Company to engage a third-party firm to perform *"an audit sampling of the 2023 vegetation management costs, 2023 lost base distribution revenues, and 2023 property tax expenses."*

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**Data Request No. DOE 2-011** **Page 1 of 2**

**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

Reference Deloitte Report at page 2 Appendix A Part II – 2023 Property Taxes.

a. Did Deloitte inquire or attempt to delineate between properties in towns/municipalities that were considered used and useful by Eversource and those properties that were not?

b. Did Deloitte inquire or investigate to ensure that Eversource did not pay any State Education Tax if some towns/municipalities did include the State Education Tax as part of property tax bills sent to Eversource?

c. Did Deloitte inquire or attempt to review any abatements or credits made to property tax bills received by Eversource?

d. Did Deloitte perform any comparison analysis to detect inconsistencies between the first and second property tax billings?

**Response:**

a) Deloitte did not perform the procedure outlined above within the agreed upon procedures engagement.

b) As a part of the agreed upon procedures engagement Deloitte did not perform such a procedure. However, the Company has a process in place to do such a procedure which entails identifying where towns erroneously had included the State Education tax. If this occurs, the Company contacts the municipality directly to address and correct the misapplication. When necessary, although rare, the Company will file an abatement application and/or petition with the Board of Tax and Land Appeals.

c) No, as outlined within the Agreed Upon Procedures report, Deloitte sampled on the 2023 property tax expense detail provided by municipality included within DE 24-035 Attachment YC/SRA-4 Page 6 Col. B. That column does not include the property tax

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abatement amounts of approximately $76,000, which are outlined in DE 24-035 Attachment YC/SRA-4 Page 6 Col. C.

d) Deloitte was not requested to perform such a comparison; however, no significant anomalies or changes were identified between tax years for the municipalities selected.

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**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

Did Deloitte review Eversource's 2023 FERC Form-1 financial statement as part of this engagement and cross-reference any of the amounts reviewed in order to confirm that those amounts accurately tied back to that statement?

**Response:**

As a part of the agreed upon procedures engagement, Deloitte did not perform the procedures described in the question specific to the 2023 FERC Form 1 financial statements.

However, it is important to note that Deloitte performs an audit of both the Company's SEC and FERC Form 1 financial statements each year, which requires Deloitte to review the FERC account classifications and all SEC to FERC reporting differences. No FERC reporting issues have been identified historically within either the SEC or FERC audit engagements completed by Deloitte.

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**Data Request No. DOE 2-013** **Page 1 of 1**

**Request from: Department of Energy**

**Witness: O'BRIEN, BRENDAN J**

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**Request:**

What was the final cost of the Deloitte Report? How does Eversource propose to recover the costs associated with the Deloitte report?

**Response:**

The total cost of the Agreed Upon Procedures engagement with Deloitte was $121,500 and the Company proposes to recover those costs from customers through the RRA rates.