



Schedule 3.7 – Corporate Allocations Report

March 3, 2023

1 Corporate Allocations

2 This document sets out the methodology used by Liberty Utilities (Gas New Brunswick) LP ("Liberty GNB") to
3 determine the allocation of costs from Algonquin Power & Utilities Corp ("APUC") to Liberty GNB recoverable
4 in rates. This methodology is based on the APUC Cost Allocation Manual ("CAM") (Appendix 3.7A). The CAM
5 sets forth a robust methodology used to allocate costs to APUC affiliates and has been completed in
6 accordance and conformance with the guidelines provided by the NARUC - (NARUC Guidelines for Cost
7 Allocations and Affiliate Transactions).

8 In its decision in Matter 494, the Board approved \$2.772M of allocated corporate costs to be included in
9 the 2022 revenue requirement, citing "insufficient evidence to justify the inclusion of \$3.696¹ million in
10 corporate allocations costs in the test year". The Board also agreed with the Public Intervener's expert, Mr.
11 Robert D. Knecht, that while there was no disagreement with PwC's review in support of the 2022 amount,
12 additional analysis was expected. In its decision the Board directed Board staff "to engage a consultant to
13 review Liberty's corporate allocations costs and file the report with the Board once completed." In addition
14 to this directive, Liberty GNB engaged MNP LLP ("MNP") to provide an independent third-party review of
15 Liberty GNB's corporate cost allocations. Details of this review can be found below.

16 APUC Cost Allocation Methodology

17 APUC is a publicly traded utility holding company and is the ultimate corporate parent of a widely
18 diversified portfolio of utility assets. APUC has two major operating units in North America - its regulated
19 utilities (a.k.a. "Liberty Utilities") and its renewable power generation facilities (a.k.a. "Liberty Power"). Liberty
20 Power, through Algonquin Power Co., is an unregulated entity that provides renewable power generation
21 from facilities owned throughout the United States and Canada. Liberty Utilities owns and operates
22 regulated water, wastewater, natural gas and electric utilities in thirteen states and one Canadian
23 province, divided into three operating regions (East, Central and West). In addition to APUC's two major
24 operating units in North America, APUC also owns a water and wastewater utility in Chile and an electric
25 utility in Bermuda. Liberty Utilities uses a decentralized approach to operate its regulated utility business
26 which emphasizes the importance of local management and local control of day-to-day business
27 operations. This approach is premised on a belief that utility services are best delivered locally, and this is
28 especially true for customer service, employee and regulatory functions and community outreach
29 activities.

30 However, Liberty Utilities, through Liberty Utilities Service Corp. ("LUSC") and Liberty Utilities (Canada) Corp.
31 ("LUC"), provide some services on a shared basis where there is an opportunity to realize economies of
32 scale or other efficiencies. Pursuant to this shared services model, certain services are provided from

¹ Liberty originally filed for \$4.0M in Corporate Allocations, and later revised this amount to \$3.696M.



1 affiliates and charged based on a direct charge, or a defined cost allocation methodology set forth in the
2 CAM.

3 The CAM outlines the services provided by various entities within the APUC family of businesses and the
4 methods used to distribute the costs for those services. Costs include both directly assigned charges to
5 specific entities and the allocation of indirect costs for services that benefit the entire organization.
6 Specifically, the CAM outlines the methods of direct charge and cost allocations between:

- 7 (1) APUC and Liberty Power, Liberty Utilities, and its international utilities in Chile and Bermuda;
- 8 (2) LUC and Liberty Power/Liberty Utilities;
- 9 (3) LUC and the regulated utility subsidiaries of Liberty Utilities Co. ("LUCo");
- 10 (4) LUSC and Liberty Power/Liberty Utilities;
- 11 (5) LUSC and the regulated utility subsidiaries of LUCo; and
- 12 (6) regional allocations.

13 The CAM is based on the NARUC Guidelines for Cost Allocations and Affiliate Transactions. The fundamental
14 premise of those guidelines and the CAM is to direct charge costs as much as possible and to use
15 reasonable allocation factors where allocation of indirect costs is necessary and direct charging is not
16 possible.

17 As the ultimate corporate parent, APUC provides financial, strategic management, corporate governance,
18 administrative and support services to its subsidiaries. As a publicly traded holding company, APUC also
19 provides financial access to capital markets and has been integral in providing Liberty GNB with the new
20 long-term debt instruments closed in 2020, saving New Brunswick ratepayers \$1.5M each and every year,
21 until 2050. APUC incurs the following types of costs:

- 22 (i) strategic management costs (board of directors, third-party legal services, accounting services,
23 tax planning and filings, insurance, and required auditing);
- 24 (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent
25 fees);
- 26 (iii) financial control costs (audit and tax expenses); and
- 27 (iv) administrative (rent, depreciation, general office costs).

28 These APUC costs are pooled and allocated to Liberty Utilities, Liberty Power, Chile and Bermuda using the
29 "multi-factor" method summarized in the CAM. Without question, the services provided by APUC are
30 necessary for Liberty GNB and its affiliates to have access to capital markets for capital projects and
31 operations.



1 Generally, LUC is the legal entity that employs personnel physically located in Canada and provides
2 various corporate and business support services including executive, regulatory strategy, energy
3 procurement, operations, utility planning, administration, and customer experience. Other LUC
4 administrative and support services are shared throughout Algonquin (regulated and non-regulated)
5 through the Liberty Algonquin Business Services ("LABS") shared services business unit. These include the
6 following departments: information technology, human resources, training, environment, health, safety
7 and security, procurement, executive and strategic management, technical services, utility planning, risk
8 management, financial reporting, planning and administration, treasury, internal audit, external
9 communications, legal, and compliance. Costs incurred through the LABS shared services business unit
10 that cannot be directly assigned are allocated to Liberty Power and Liberty Utilities using the "multi-factor"
11 allocation methodologies described in the CAM. Costs incurred for the benefit of all of Liberty Utilities'
12 regulated assets (i.e., indirect costs) are allocated using the Utility Four-Factor methodology based on
13 customer counts, utility net plant, non-labour expenses and labour expenses (40% weighting for the factor
14 of customer count, and 20% weighting each for the factors of utility net plant, non-labour expenses, and
15 labour expenses).

16 LUSC, a wholly owned subsidiary of LUCo., is the legal entity that employs most U.S.-based employees who
17 provide support to the regulated utilities. LUSC employees can generally be placed into four categories:
18 (1) utility dedicated employees, (2) employees who provide shared services to Liberty Power and Liberty
19 Utilities through the LABS U.S. business unit, (3) employees who provide corporate support to all Liberty
20 Utilities' operating utilities (i.e., U.S.-based "corporate" employees), and (4) regional employees who provide
21 shared services to support the utilities within one of the operating regions (East, Central or West). Costs
22 incurred for the benefit of all of Liberty Utilities' regulated assets (i.e., indirect costs) are allocated using the
23 Utility Four-Factor methodology.

24 As stated above, LABS is a business unit that serves both regulated and unregulated entities. The LABS
25 business unit provides shared services throughout APUC's family of businesses and are outlined in the
26 CAM. Specific examples of these services include:

- 27 (i) budgeting, forecasting, and issuing consolidated and stand-alone financial statements;
- 28 (ii) treasury functions including cash management (including electronic fund transfers, cash receipts
29 processing), and managing short-term borrowings and investments with third parties;
- 30 (iii) development of human resource policies and procedures;
- 31 (iv) selection of information systems and equipment for accounting, engineering, administration,
32 customer service, emergency restoration and other functions and implementation thereof;
- 33 (v) development, placement and administration of insurance coverages and employee benefit
34 programs, including group insurance and retirement annuities, property inspections and
35 valuations for insurance;



1 (vi) internal audit providing assurance and advisory services in the areas of governance, risk
2 management and internal control; and

3 (vii) purchasing services including preparation and analysis of product specifications, requests for
4 proposals and similar solicitations, and vendor and vendor-product evaluations.

5 To the extent that LABS costs can be directly attributable to a specific utility, they are directly charged or
6 assigned. Those costs include direct labour and direct non-labour costs. LABS also provide certain services
7 that benefit the entire company, i.e., both Liberty Utilities and Liberty Power. Those indirect costs are
8 allocated between Liberty Power and Liberty Utilities based on multi-factor allocation methodologies
9 defined in the CAM. Once those indirect costs are allocated between Liberty Power and Liberty Utilities, they
10 are further allocated to the Liberty Utilities entities using the Utility Four-Factor methodology.

11 Liberty GNB is part of the East Region, which also includes regulated electric and natural gas utility
12 operations in New Hampshire, Massachusetts, New York, and Georgia. Within the regions, certain services
13 (e.g., finance, legal, regulatory, government relations) are provided to optimize resources and provide
14 oversight of local/regional functions. Services and costs that are not direct assigned are allocated to the
15 utilities within the region using the Regional Four-Factor Methodology (25% weighting for the factors of:
16 customer count, utility net plant, non-labour expenses, and labour expenses).

17 The shared services model serves an important role in the administration and operation of Liberty GNB.
18 Through it, Liberty GNB receives services vital to the day-to-day conduct of the utility. APUC provides
19 benefits to its subsidiaries by providing financing, financial control, legal, executive and strategic
20 management and related services and is directly responsible for providing material revenue requirement
21 reductions through the long-term debt and elimination of the 1% premium. This reduction in revenue
22 requirement amounts to \$45M over the lifetime of the promissory note, or \$1.5M each year. The services
23 provided by APUC are necessary for all affiliates, including Liberty GNB, to have access to capital markets
24 for funding of capital projects and operations. In addition, the allocation of shared services from APUC, LUC
25 and LUSC maximize economies of scale and expertise while minimizing redundancy.

26 MNP Report

27 Liberty GNB engaged MNP to provide an independent assessment of cost allocations. The purpose of this
28 review was three-fold: (1) to assess the prudence and benefits of allocated costs, (2) to compare allocated
29 costs to costs required to provide the same services internally and (3) to compare Liberty GNB's allocated
30 costs with those of similar utilities.

31 Details of MNP's review and findings can be found in Appendix 3.7C – Liberty Utilities – Corporate Services
32 Cost Allocation Review.



1 To assist with this review, Liberty created a document outlining each individual corporate cost allocated
2 to Liberty GNB, including its description and benefits to New Brunswick ratepayers. This document has been
3 included in this application and can be found in Appendix 3.7B – Corporate Services Descriptions.

4 **Customer First Implementation**

5 Customer First is a multi-year, transformational journey that will provide integrated processes, operations
6 and systems across Liberty. Customer First puts customers at the heart of everything the company does.
7 Customer First's goal is to provide our employees with the tools and capabilities needed to deliver the
8 experience our customers demand and deserve – whether it's providing sustainable energy solutions or
9 effortless customer interactions.

10 In Matter 494, Liberty GNB requested the approval of costs related to its Customer First program. In its
11 decision of this Matter, the Board approved all components of the program. Liberty had included the
12 amortization of \$9.928M for Customer First as part of its 2022 revenue requirement. However, as the
13 program was not scheduled to be capitalized until 2023, the Board directed Liberty GNB to remove all but
14 \$488K from the 2022 revenue requirement, and to capitalize the remainder in 2023.

15 Customer First was implemented for Liberty GNB on October 3, 2022. Liberty GNB has included the impacts
16 of capitalizing \$9.4M for Customer First as part of the 2023 revenue requirement.

17 **Addition and Removal of Corporate Cost Allocations**

18 As business requirements change, so will corporate allocation costs. As a result, the addition, revision and
19 removal of corporate cost allocations will be evaluated in the same manner as presented above and
20 reviewed by the Board during future general rate applications.

21 The following information has been provided in support of Corporate Allocations:

- 22 • Appendix 3.7A – Algonquin Cost Allocation Manual, January 1, 2017
- 23 • Appendix 3.7B – Corporate Services Descriptions
- 24 • Appendix 3.7C – Liberty Utilities – Corporate Services Cost Allocation Review

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