

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on September 17, 2026

COMMISSIONERS PRESENT:

Rory M. Christian, Chair
James S. Alesi
David J. Valesky
John B. Maggiore
Uchenna S. Bright
Denise M. Sheehan
Radina R. Valova

CASE 25-M-0515 - In the Matter of a Focused Operations Audit of
Liberty Utilities (New York Water) Corp. and
Liberty Utilities (St. Lawrence Gas) Corp.

ORDER RELEASING AUDIT REPORT

(Issued and Effective September 17, 2026)

BY THE COMMISSION:

INTRODUCTION

Pursuant to Public Service Law §66(19)(a) and §89-c(15), on September 18, 2025, the Commission initiated a focused operations audit of Liberty Utilities (New York Water) Corp. (LNYW) and Liberty Utilities (St. Lawrence Gas) Corp. (SLG) (collectively, the Companies).¹ On December 18, 2025, the Commission selected NorthStar Consulting Group (NorthStar or the Consultant) to perform the audit.² NorthStar submitted its report, entitled "A Focused Operations Audit of Liberty

¹ Case 25-M-0515, Order Initiating a Focused Operations Audit (issued September 18, 2025).

² Case 25-M-0515, Order Directing Utilities to Enter into Contract with Selected Independent Auditor (issued December 18, 2025).

Utilities (New York Water) Corporation and Liberty Utilities (St. Lawrence Gas) Corporation" (Final Report), to the Department of Public Service staff (Staff) on August 10, 2026.

By this Order, the Commission authorizes the issuance of the Final Report, summarizes NorthStar's key findings and recommendations from the Final Report, and summarizes the Companies' comments on the Final Report. The Commission also directs the Companies to file a plan within 30 days to implement the Final Report's recommendations.

BACKGROUND

SLG is a regulated natural gas distribution utility headquartered in Massena, New York. The Commission approved Liberty's acquisition of SLG on October 18, 2019.³ LNYW is a regulated water utility headquartered in Merrick, New York. The Commission approved Liberty's acquisition of LNYW on December 16, 2021.⁴

The Commission directed the audit include a review of three topics: Management and Oversight, Affiliate Interests, and Procurement. The audit scope reflected areas of the Companies'

³ Case 18-G-0140, Joint petition of Liberty Utilities Co. and St. Lawrence Gas Company, Inc. for Approval, Pursuant to Section 70 of the PSL, of the Acquisition of St. Lawrence Gas company, Inc., by Liberty Utilities Co., Order Adopting the Terms of Joint Proposal (issued October 18, 2019) (SLG Acquisition Order).

⁴ Case 20-W-0102, Joint Petition of American Water Works Company, Inc.; New York American Water Company, Inc.; and Liberty Utilities (Eastern Water Holdings) Corp. for Approval, Pursuant to Section 89-h of the PSL, of the Acquisition by Liberty Utilities (Eastern Water Holdings) Corp. of 100% of New York American Water Company, Inc. Issued and Outstanding Capital Stock, Order Adopting Terms of Joint Proposal, Approving Stock Purchase Agreement and Long-Term Indebtedness, with Additional Requirements (issued December 16, 2021) (LNYW Acquisition Order).

operations that warranted further review based on recent proceedings, including oversight by their parent corporations (Liberty Utilities Co. and Algonquin Power & Utilities Corp.), intercompany allocations, financial and regulatory management, and procurement levels and policies.⁵

Audit fieldwork commenced in January 2026 and continued through May 2026. NorthStar issued over 360 data requests, conducted 11 interviews, and performed on-site work. Staff oversaw the audit process and attended the interviews. NorthStar submitted its draft report to Staff on May 29, 2026. On June 18, 2026, NorthStar provided its draft report to the Companies for factual accuracy verification and review for confidential information. NorthStar submitted the Final Report to Staff on August 10, 2026.

FINAL REPORT SUMMARY

The Final Report describes a complex corporate organization with multiple layers of holding companies and affiliates within which the Companies operate. Liberty Utilities Co. (Liberty) is the parent company of both LNYW and SLG. LNYW has an additional layer of separation from Liberty, with Liberty Utilities (Eastern Water Holdings) Corp. situated between Liberty and LNYW. Liberty Utilities Service Corporation (LUSC) provides shared services to the Companies and other affiliates and is responsible for allocating the costs of such services among affiliates. Liberty is an indirect subsidiary of Liberty Utilities (Canada) Corp. (LUCC), separated by multiple intermediate holding companies. LUCC is a wholly owned subsidiary of Algonquin Power & Utilities Corp. (APUC), an international utility holding company headquartered in Ontario,

⁵ Case 25-M-0515, Order Initiating a Focused Operations Audit (issued September 18, 2025), p. 2; Appendix, p. 8.

Canada. APUC owns and operates regulated electric, natural gas, water, and wastewater systems in the United States, Canada, Bermuda, and Chile, as well as 14 hydroelectric generating facilities in Canada.⁶

NorthStar found that the Companies rely heavily on affiliates within this corporate structure for the functions reviewed in this audit. However, NorthStar noted that the Companies often could not produce documentation to verify that affiliate-provided services were effectively managed to ensure consistent processes, continuous personnel support, or clear accountability for results.

In the Final Report, NorthStar makes 22 recommendations to the Companies. The most significant findings and recommendations are discussed below, followed by a summary of the Companies' comments regarding the Final Report.

Management and Oversight

NorthStar identified several issues stemming from the Companies' situation within APUC's corporate structure. APUC owns more than 30 regulated utilities, all of which operate under a shared-services model in which centralized service companies provide the functions reviewed in this audit. These functions include management, regulatory, treasury, accounting, and procurement, among others. NorthStar found that the

⁶ APUC is planning a corporate reorganization involving moving its headquarters to the United States and other upstream changes. The Companies' Joint Petition for a Declaratory Ruling that Public Service Law Sections 70 and 89-h do not Apply to an Intra-Corporate Reorganization in Case 26-M-0548, which they filed on August 14, 2026, states that LNYW and SLG will not be affected, that there will be no changes to affiliate agreements or the cost allocation manual, and that APUC will bear the transaction costs. That petition is currently under review and this Order does not prejudge or consider the merits of the claims made therein.

Companies depend on affiliates for rate case and compliance activities, and that Liberty's operating model does not ensure experienced, accountable, and continuous support for the Companies. The Consultant recommends that the Companies establish a New York-specific regulatory operating model that defines the work required to meet New York obligations, assigns accountability, governs the use of affiliate support, and ensures that the Companies can adequately address all aspects of New York regulatory and ratemaking requirements.

NorthStar found significant workforce turnover across affiliate functions during the audit period and that local vacancies were eventually backfilled with affiliate resources. In addition, NorthStar identified that LNYW did not hire the regulatory positions required by the LNYW Acquisition Order. NorthStar characterized regulatory knowledge transfer at the Companies as informal, noting that no structured training program currently exists. Further, NorthStar found that the Companies do not perform succession planning. NorthStar recommends that LNYW hire the personnel required by the LNYW Acquisition Order, develop a New York regulatory capability program to standardize procedures and enable formal knowledge transfer, and develop a formal succession planning framework.

NorthStar found that Liberty's centralized treasury model does not adequately support treasury activities affecting the Companies. Specifically, neither utility has dedicated treasury personnel, as LUCC performs all cash management, liquidity planning, financing, capital structure monitoring, debt portfolio management, and insurance functions for the Companies. Because LUCC employees perform the Companies' treasury services, LNYW and SLG do not have decision-making authority over equity infusions and dividend payments. Furthermore, LUCC does not maintain formal written policies and

procedures or a documented governance framework for providing treasury services to the Companies. LUCC also controls the financial planning and analysis function for the Companies. NorthStar recommends that the Companies establish and implement a formal governance framework for treasury services that assigns LNYW and SLG management a defined, substantive, and documented role in all capital structure transactions affecting each utility, and develop written policies governing all aspects of the treasury services that LUCC provides to the Companies.

NorthStar raises concerns that LUCC and the Companies' failure to monitor the Companies' minimum equity ratios may have violated the LNYW Acquisition Order and the SLG Acquisition Order. In the respective acquisition orders, the Commission required the Companies to adhere to certain financial integrity conditions. For the minimum equity ratios, the Commission ordered that Liberty and SLG, and Eastern Water Holdings and LNYW, maintain a minimum equity ratio, defined as no less than 300 basis points below the approved common equity ratio used to set rates for SLG and 300 basis points less than the approved common equity ratio used to set rates for LNYW, at the end of each month using a trailing 13-month average. The Commission further ordered that, should SLG or LNYW not maintain the minimum equity ratio, the utility would not be able to pay dividends until it restored the minimum equity ratio.⁷ The Companies could not demonstrate to NorthStar that this monthly monitoring occurred. Therefore, NorthStar recommends that the Companies implement a minimum equity ratio compliance monitoring and reporting program at the utility level. NorthStar also recommends that the Companies maintain documentation verifying ongoing compliance.

⁷ Final Report, p. III-7.

Affiliate Interests

NorthStar reviewed a sample of transactions representing \$3.2 million of the \$86 million in service company and affiliate charges the Companies incurred during calendar years 2022 through 2025. NorthStar found that most LUSC charges to the Companies during this time were indirect allocations. Of the \$3.2 million in transactions tested, NorthStar identified issues with over \$1 million, or approximately one-third, of the costs. NorthStar identified instances in which LUSC did not follow its Cost Allocation Manual, as well as instances in which allocated costs lacked sufficient documentation to substantiate that the costs benefited the Companies. Some notable examples include:

- The Companies reclassified and/or manually entered \$504,379 in charges. NorthStar noted that these accounting practices limit insight into source activities.
- LNYW produced no supporting documentation for \$71,689 in charges to LNYW.
- LUSC charged LNYW \$15,398 for greenhouse gas services, even though LNYW is a water utility.
- LUSC charged the Companies \$19,422 for renewable energy tax credit services that would not be applicable to the Companies.
- \$70,683 in charges to LNYW contained sufficient detail for direct charging as required by the Cost Allocation Manual, but LUSC instead used imprecise general allocation factors.
- LUSC charged the Companies nearly \$100,000 for incentive compensation that did not clearly benefit the Companies or their customers.

In addition, NorthStar identified instances where LUSC charges to the Companies may have benefited shareholders rather than the Companies' customers, including donations, board of directors' costs, and investor relations. The Consultant recommends that the Companies provide documentation in rate

proceedings to verify that any charges from affiliates are both reasonable and beneficial to the Companies. NorthStar further recommends that the Companies improve the documentation for allocation processes by creating a comprehensive schedule of transaction costs charged by their affiliates to enable transactional testing to assess the reasonableness of affiliate charges to the Companies.

NorthStar found that the Cost Allocation Manual methodology has not been audited internally or updated since 2017, prior to LNYW and SLG's acquisitions. The Consultant recommends annual internal audits, as well as an independent third-party audit, with Staff oversight, of the cost allocation methodology used in the Cost Allocation Manual.

NorthStar found that the Companies do not have Service Level Agreements (SLAs) with APUC or its subsidiaries. Instead, they use Affiliate Service Agreements (ASAs), which NorthStar believes do not adequately protect the Companies' customers. NorthStar notes that the ASAs either partially address or entirely omit elements typically included in SLAs. NorthStar indicated that SLA elements not included in the ASAs include reviews of market competitiveness, performance metrics, quality standards, and accountability for results. Also, NorthStar found that the ASAs have not been updated since the acquisitions of LNYW and SLG. The Consultant recommends that the Companies develop SLAs with their affiliates that address all key SLA elements.

Procurement

Through a shared-services model, LUSC and LUCC perform procurement on behalf of the Companies. NorthStar found that the procurement policies and procedures do not adequately align with industry standards and are high-level and generalized, with

no policies specific to the Companies that address applicable regulatory requirements. Additionally, NorthStar found that the procurement policies do not accurately describe the organization's current operations, provide competitive purchasing guidance, or incentivize competitive purchasing practices. NorthStar found that LUSC and LUCC have procurement controls and metrics but do not adequately track, monitor, or report performance at the Companies' levels. The Consultant recommends that the Companies develop a new procurement policy that mirrors the organizational structure, promotes competitive sourcing, and aligns with industry-standard procedures and policies.

NorthStar found no formal documentation governing whether the Companies should utilize internal or external resources. Further, NorthStar could not determine at what organizational level resourcing decisions are made due to a lack of procedural documentation. NorthStar recommends that the Companies establish clear practices and procedures for determining internal versus external sourcing.

COMPANY COMMENTS

LNYP and SLG submitted their formal comments on the Final Report to Staff on August 30, 2026. The Companies state that they appreciate NorthStar's and Staff's efforts throughout the audit and welcome the opportunity to gain valuable external insights into the effectiveness of their operations. LNYP and SLG express that they do not agree with all of NorthStar's findings but believe the Final Report's recommendations offer useful ideas for improving processes, documentation, internal controls, and governance practices. The Companies' comments provide several examples of findings they disagree with,

including findings related to procurement, cost allocations, accounting practices, and financial management.

In their comments, the Companies discuss the background and procedural history of this and other cases, the benefits and oversight of their operating model, and their performance on safety, reliability, and customer service matters not under review in this focused audit. The Companies' comments highlight that during this audit, APUC divested its renewable energy business to focus more on its regulated utility operations. The Companies note that APUC has reorganized its executive leadership team and is moving its headquarters from Canada to the United States. The Companies state that these changes will strengthen APUC's oversight of its operations in the United States.⁸

The Companies' comments contend that the documentation deficiencies identified by NorthStar do not inherently mean the underlying activity did not occur. For example, the Companies note that they withheld enterprise risk management information from NorthStar during the audit, claiming the information is privileged, but assert that their refusal to provide such information does not support NorthStar's conclusion that the activities did not occur.⁹ Further, the Companies state that during the audit NorthStar raised concerns to Staff about the timeliness and substance of the Companies' responses to NorthStar's questions. The Companies indicate that, following Staff's intervention, the Companies assigned additional

⁸ As noted above, a petition regarding this reorganization is currently under consideration in Case 26-M-0548.

⁹ The Companies additionally assert that they produced meeting minutes reflecting the East Region Board's discussions of enterprise risk management updates as part of the Board's oversight of risk and compliance matters.

resources and responded to hundreds of NorthStar's data requests to remedy the deficiencies.

The Companies also note that NorthStar's benefit-cost analyses should be viewed as preliminary planning assumptions rather than determinations concerning future rate treatment. The Companies request flexibility in the implementation process as it pertains to implementation approaches, sequencing, interdependencies, system constraints, resource availability, costs, and benefits. Finally, the Companies request that implementation proceed with due consideration of customer affordability.

LEGAL AUTHORITY

Public Service Laws (PSL) §66(19) and §89-c(15) provide the Commission the authority to conduct management and operations audits of natural gas, electric, and water utilities. The Commission may determine whether Staff or independent auditors conduct the audits. PSL §66(19)(b) requires that audited gas and electric utilities file an implementation plan within 30 days of the issuance of the audit's Final Report. PSL §89-c(15) authorizes the Commission to direct a water utility to implement the recommendations resulting from an audit.

DISCUSSION AND CONCLUSION

Initially, the Final Report was scheduled for submission in May 2026, as presented in the Commission's Request for Proposals.¹⁰ However, NorthStar noted in the Final Report that the Companies failed to "provide timely, relevant responses to NorthStar's data requests during the execution of the

¹⁰ Case 25-M-0515, Order Initiating a Focused Operations Audit (issued September 18, 2025), Appendix, p. 4.

audit.”¹¹ The Companies acknowledge in their comments that Staff’s intervention during the audit prompted them to take action to address NorthStar’s concerns. Regardless, this resulted in a two-month delay in the audit schedule.

In their comments, the Companies raise numerous disagreements with the substance of NorthStar’s findings and question the Consultant’s documentation expectations. We do not need to resolve the substantive contentions at this stage. Additionally, the Companies’ comments request flexibility in developing implementation strategies and benefit/cost analyses. The considerations detailed below provide the requested flexibility.

The Commission directs the Companies to file a plan to implement the audit recommendations contained in the Final Report (Implementation Plan). The Companies must file the Implementation Plan within 30 days of the issuance of the Final Report, which is consistent with the requirements of PSL §66(19)(b). We direct that the Companies present, in their Implementation Plan, the steps they will take to address each recommendation in the Final Report. For each recommendation, the Companies must provide a unique plan and identify the deliverables they will submit to the Commission to demonstrate compliance. If the Companies believe that any recommendation, in whole or in part, should not be implemented, they may identify those recommendations and explain their concerns. The Commission will consider those requests, but the Companies must file a plan to implement all recommendations, even if the Companies disagree with them. The Commission will review the Implementation Plan submitted by the Companies and, following a public comment period, identify any necessary modifications.

¹¹ Final Report, p. II-8.

NorthStar was directed to assess the potential costs, risks, and benefits of implementing any recommendations that would require the Companies to incur incremental expenses. In its Final Report, NorthStar presented the required assessment. The purpose of these analyses is to support and justify the Consultant's recommendations. The Commission directs the Companies to submit their own benefit-cost analyses as part of the Implementation Plan. The Companies' benefit-cost analyses must include an assessment of the anticipated cost of implementing each recommendation, the risks of not implementing each recommendation, the quantitative and qualitative benefits the Companies expect to achieve from implementing each recommendation, and any potential effects on customer affordability. The Commission will consider the costs, risks, and benefits identified in both the Consultant's and the Companies' analyses when we assess the appropriateness of the Implementation Plan. Finally, the Companies shall state in their Implementation Plan how they will identify and monitor the actual financial and operational effects of implementing the recommendations. We encourage the Companies to consult with Staff while developing their Implementation Plan.

The Commission orders:

1. The final report prepared by NorthStar Consulting, titled "A Focused Operations Audit of Liberty Utilities (New York Water) Corporation and Liberty Utilities (St. Lawrence Gas) Corporation," shall be made public.

2. Liberty Utilities (New York Water) Corp. and Liberty Utilities (St. Lawrence Gas) Corp. shall file with the Secretary, within 30 days of the release of the "A Focused Operations Audit of Liberty Utilities (New York Water) Corporation and Liberty Utilities (St. Lawrence Gas)

Corporation," a plan to implement the recommendations in the report.

3. For each recommendation, Liberty Utilities (New York Water) Corp. and Liberty Utilities (St. Lawrence Gas) Corp. shall provide specific implementation steps, an implementation schedule with start and end dates, significant interim milestones (if applicable), and a description of the deliverable(s) that will demonstrate that they have implemented the recommendation.

4. For each recommendation, Liberty Utilities (New York Water) Corp. and Liberty Utilities (St. Lawrence Gas) Corp. shall provide the anticipated benefits, risks, and costs; and a methodology to track actual costs and savings (as applicable).

5. For each recommendation, Liberty Utilities (New York Water) Corp. and Liberty Utilities (St. Lawrence Gas) Corp. shall designate and identify the executive officer(s) accountable for implementation.

6. This proceeding is continued.

By the Commission,

(SIGNED)

MICHELLE L. PHILLIPS
Secretary