

ORIGINAL	
N.H. P.U.C. Case No.	DG 12-242
Exhibit No.	#7
Witnesses	Peter Bloomfield Stephen P. Frink
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# STATE OF NEW HAMPSHIRE

Inter-Department Communication

**DATE:** February 14, 2013

**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor  
Debra Piaseczny, Examiner  
Jim Schuler, Examiner  
Paul Tessier, Examiner

**SUBJECT:** Concord Steam Corporation  
DG 12-242  
FINAL Audit Report

**TO:** Mark Naylor, Director  
Steve Frink, Assistant Director  
Bob Wyatt, Utility Analyst

## Introduction

The PUC Audit Staff (Audit) has completed an audit of the books and records of Concord Steam (CSC, Company) for the test year ended 12/31/2011. CSC is a steam utility which provides steam to commercial, industrial, and public authority customers in the downtown Concord area. The Company leases the premises from which it operates from the State of New Hampshire Department of Health and Human Services.

The Audit Staff appreciates the assistance provided to us by Peter Bloomfield, Mark Saltsman, and Pansy Bloomfield

## Board of Directors

Audit reviewed the annual meeting (held via written consent) of the Board of Directors. The meeting was dated February 9, 2011 and appointed the officers for the coming year. Specifically named were Peter Bloomfield, President; Mark Saltsman, Vice President; Pansy Bloomfield, Treasurer; Howard Moffet, Secretary.

## External Audit

Nathan Wechsler & Company, P.A. reviewed the books and records of Concord Steam, prepared the independent accountant's report, the PUC annual report, and the tax returns for the Company. The 2011 year-end financial review concluded that the accountant "was not aware of any material modifications" that should be or have been made to the represented information.

## **Rate Regulations**

### **Orders, Tariffs**

Concord Steam requested and was approved for three special rate contracts that were in effect during the test year:

- Order No.25,009 - Denev Realty;
- Order No 25,030 - Concord School District/Rundlett Jr. High School;
- Order 25,176, which amended Order 24,776 - Concord YMCA.

The most recent orders that affected CSC's rates during the test year were as follows:

- Order No. 25,100 was issued on May 6, 2010 granting Concord Steam a permanent rate increase as well as a temporary rate increase;
- Order No. 25,285 was issued on October 28, 2011 approving a cost of energy rate change.

Concord Steam also requested, and was approved, for two additional special rate contracts during 2011. They will not be effective until the new plant comes on line:

- Order No. 25,268 – City of Concord;
- Order No. 25,260 – State of New Hampshire.

Concord Steam updated and filed the tariff changes necessary for the rate changes.

### **Contracts, Agreements, Leases**

#### **State of NH Department of Administrative Services - Plant Lease - Account #5-6000**

Concord Steam signed an agreement with the State of New Hampshire, Division of Mental Health, Department of Health and Welfare to lease the premises on Pleasant Street in 1980. The term of the initial lease was 30 years, and expired in August 2010.

Concord Steam entered into a new "License for Use of Premises" agreement on June 21, 2010 with the State of New Hampshire, Department of Administrative Services for the lease of the Pleasant Street plant until the completion of the construction of the new plant (see docket DG 08-107). The term of the new agreement is for three years starting on September 1, 2010 and terminating on August 31, 2013. The total agreement is for an amount not to exceed \$301,547. The annual lease payment is \$100,516, calculated as a monthly amount \$8,376, payable in advance. The activity for this rental expense is recorded in account 5-6000, Rent – NH Hospital Plant Lease.

With the new lease taking effect, Concord Steam has seen an increase in the annual lease of \$16,753. Because the Company will not own the building at the end of

the lease term, it has properly booked this long term lease as an annual operating expense rather than a capital lease.

Audit traced the \$101,912 of rent expense reported in the general ledger in account 5-6000, Rent – NH Hospital Plant Lease to the Other Operating Expenses section of the annual report (Account 1508, Table 42-s pg. 203) and also to the Operating Rents, net Schedule 1 of the rate filing. Please refer to the Operations and Maintenance section of this report for further information.

#### Sprint Spectrum- Smokestack Sublease - Account #4-5102

Concord Steam subleases space on the smokestack to Sprint Spectrum LP. Authorization from the State, which allows Concord Steam to sublease a portion of the premises, subject to the 30 year lease, was reviewed during the audit in DG 04-156. Sprint signed the contract with CSC and the State in 1996. The initial term of the lease was five years starting on August 28, 1996 (the date CSC signed the contract) with two automatic renewal terms. The first renewal term was five years, the second commenced on the expiration of the first renewal and extended through September 1, 2010. The Sprint lease agreement has the potential to be automatically renewed for two additional terms of five years each unless Sprint provides notice of intent not to renew, providing the plant lease is renewed.

The annual rental amount is \$18,000, to increase by the Consumer Price Index. One half of the annual rent is due to Concord Steam and one half to the State, which owns the property. Because the plant lease expired in August of 2010, Audit inquired if the Sprint sublease was still in effect for the entire test year of 2011. Audit was assured the agreement was still active and CSC explained that the full payment was now made to the State who then forwarded CSC's portion to them.

Five payments of \$1,000 were reflected in account 4-5102 for each month end February through June 2011 for a total of \$5,000 for the test year with no accruals for the remaining outstanding periods.

Audit traced the \$5,000 recorded in account 4-5102, Rental Income Stack, of the general ledger to the miscellaneous revenues section of the annual report (account 1610, table 41 pg. 203) and to the other revenues section of Schedule 1 of the rate filing. Please refer to the Revenue section of this report for more information

#### Unitil-Excess Electricity – Account #4-5048

Electricity generated in excess of that used by CSC was sold to Unitil. The Company no longer has a contract with Unitil for a set purchase price. During the test year excess energy was purchased by Unitil at the current local market rate.

Audit traced the \$94,733 recorded in account #4-5048, Sale of Electricity (to Unitil) in the general ledger to the Other Sales section of the annual report (account 1608, table 41 pg. 203) and to the Electricity Sales section of Schedule 1 of the rate filing. Please refer to the Revenue section of this report for more information regarding this agreement.

EnerNOC - Demand Response Sales and Service Agreement - Account #4-5049

EnerNOC Managed Services manages CSC’s participation in the ISO New England Demand Response Program (ISO-NE DRP) which compensates large electricity users for reducing consumption when demand for electricity is high and/or when system reliability is at risk. While the effective date of the agreement is blank the agreement was signed by Peter Bloomfield on December 27, 2011 and the terms of the agreement state “This agreement shall commence on the Effective Date and end 60 months following the Effective Date”. The estimated capacity for CSC for both summer and winter is 300. CSC earns payments on a quarterly basis for capacity in exchange for being on call for demand response dispatches (a demand response event, determined by ISO-NE and managed by EnerNOC) and for energy based on the ability to meet energy reduction targets during dispatches based on the following:

Capacity Payments	Payments earned in exchange for being on call for demand response dispatches; equal to each period's Payment Capacity (kW) * Clearing Price (\$/kW) * Capacity Payments %.
Payment Capacity (kW)	Capacity for which the customer is paid; may be subject to a cap depending on market rules or contract terms.
Clearing Price (\$/kW)	Capacity market price per kilowatt
Capacity Payments %	Contracted percentage of Capacity Payments paid to customer.
Dispatch	A demand response event, determined by ISO-NE and managed by EnerNOC.
Energy Payments	Payments earned based on ability to meet energy reduction targets during dispatches; equal to Payment Capacity (kWh) * Rate (\$/kWh) for each dispatch in period.
Payment Capacity (kWh)	Capacity for which the customer is paid based on performance during a demand response dispatch; may be subject to a cap depending on market rules or contract terms.
Rate (\$/kWh)	ISO-NE energy market price per kilowatt hour

Audit traced the \$3,456 recorded in account 4-5049, Demand Response Income, of the general ledger to the miscellaneous revenues section of the annual report (account 1610, table 41 pg. 203) and to the other revenues section of Schedule 1 of the rate filing. Please refer to the Revenue section of this report for more information regarding this agreement.

### **Affiliate Contracts, Agreements, Leases**

#### **BS & Chips - Wood Yard Lease - Accounts #5-8005 and #9-9555 – Cost of Energy**

BS & Chips and Concord Steam (DA 06-114) entered into a triple net lease of a wood yard at \$168,000 per year through 2016. Commission Order #24,740 authorized the recovery of \$141,792 from customers through the cost of energy mechanism. The remaining \$26,208 relates to that portion of the loan taken to purchase the property which corresponds with a house on abutting property on Dover Road. The properties had to be purchased together, but the house is not used for wood yard purposes. Therefore, the Order instructed Concord Steam to book the expense below the line.

Audit verified the below the line expense to account 9-9555, Off Book Rent Expense. Audit also traced the \$141,792 of rent expense indicated in the general ledger in account 5-8005, Yard Rental to the Other Operating Expenses section of the annual report (account 1508, Table 42-s pg. 203) and to the Operating Rents, net Schedule 1 of the rate filing. Please refer to the Cost of Energy section of this report for further information.

#### **BS & Chips – Loader Rental - Account #5-8085-Cost of Energy**

BS & Chips entered into a master lease agreement with VFS Leasing Co for the lease of a 2007 Volvo bucket loader on November 11, 2008 for Concord Steam's use at the wood yard. There is no written contract between BS & Chips and Concord Steam regarding the loader lease. Concord Steam pays to BS & Chips the monthly payment per BS & Chip's lease agreement which is \$4,300 each month for an annual total of \$51,597 in account #5-8085, Loader rental in the general ledger.

Audit verified that the \$51,597 of rent expense recorded in the general ledger in account #5-8085 was the same amount shown on the lease agreement (no mark-up) and that it was the same amount included within the Boiler Fuel costs account 1711 of the Annual report and within the Fuel Costs of the Operating Expenses of Schedule 1 of the rate filing. Please refer to the Cost of Energy section of this report for further information.

Bloomfield Associates - Management Contract - Account #6-6560

The Concord Steam and Bloomfield Associates management contract was originally drafted on December 15, 1990, updated on December 31, 1999, then redrafted and adopted on June 28, 2005. The contract outlines the management, consulting, and engineering services that Bloomfield will provide to Concord Steam. The contract term is one year, with automatic renewal. The fee in 2005 was set annually at \$72,000 with an annual increase based on the "Consumer Price Index, all Urban Consumers, Boston MA, All Items".

General ledger account #6-6560, Management Fee, reflects a total for the test year of \$82,620. Audit noted that the monthly amount was \$6,885 for January through December and that no adjustment was made for an increase on the contract anniversary date (June 30).

Audit verified that the \$82,620 of management expense recorded in the general ledger in account #6-6560 was the same amount included in the Supervision Fees and Special Services account, 1794 of Table 42 of Operations and Maintenance Expenses section of the Annual Report and in the Admin and General operating expenses of Schedule 1 of the rate filing. Please refer to the Accounts Payable and Operations and Maintenance sections of this report for further information.

Bloomfield Associates - Contracted Admin. Services Account # 6-5799

Audit requested and was provided with a copy of the contract between Bloomfield Associates PC and Concord Steam for the bookkeeping and administrative services reflected in the Contracted Admin. Services account. The contract was dated August 31, 2010 and simply states "Pansy Bloomfield of Bloomfield Associates PC will provide bookkeeping and administrative services to Concord Steam Corporation beginning the month of September 2010 until further notice at the rate of \$42,000 per annum. Rate changes may be agreed to from time to time".

P&M Realty of Concord LLC – Accounts #2-3511 and #1-1225

Audit requested the contract, or other document, that supports the activity noted within the PUC annual report table 28, Payables to Affiliated Companies. The affiliate, P&M Realty of Concord, LLC, owns the property on which a new plant will be constructed. The Company indicated that "there is no formal loan agreement with P&M Realty. This is handled as an intercompany transaction" and also indicated that the loan activity was essentially to cover cash/checking account activity as necessary.

Net activity in the general ledger account 1-1225, Loan to New Project showed a zero balance and no activity during the year and account 2-3511, Loan from P&M Realty, reflected a net credit balance at year-end of \$200,000. Credits during the year amounted to \$200,000 with offsetting debits of \$200,000.

This affiliated activity was reflected in account 223 on table 28 of the annual report, Payables to Affiliated Companies (pg. 110). Please refer to the Debt section of this report for further information.

**Cash Account**

Audit reviewed the year-end bank statement reconciliation and general ledger account #1-1010, General Checking Account. The general ledger and the filing Schedule 2, page 2 of 2 shows a year-end balance of (\$123,236) which agrees with the Company's reconciliation report for the year-ending December 31, 2011.

Bank Statement Balance	\$2,917
Outstanding deposits	14,212
Outstanding checks	<u>(140,366)</u>
Reconciled G/L Balance	(\$123,236)

**Accounts Receivable - \$662,810**

Total accounts receivable on the PUC annual report at year-end was comprised of the following three general ledger accounts:

Accounts Receivable	#1-1251	\$694,766
Prepaid Employee Insurance	#1-2042	\$ 3,205
Allowance for Doubtful	#1-1259	<u>\$(35,161)</u>
Total Receivables		\$662,810

Refer to the Revenue portion of this report for further detail.

**Accounts Payable – Account #2-2000 - \$955,878**

Audit requested and was provided with the accounts payable aging report entitled Payables Reconciliation. The total of the eighty four line items on the report is noted as \$955,658, a variance of \$219 due to a keying error within the aging report. The spread of the payables is:

0-30 days	\$292,888	30%
31-60 days	\$189,705	20%
61-90 days	\$ 80,993	9%
Over 90 days	<u>\$392,072</u>	41%
Aging Total	\$955,658	

Payables to Bloomfield Associates and BS & Chips represent \$256,278 of the total, or 27%. \$197,573 of the payables to these affiliates is past due over 90 days. The Company noted that payables to Bloomfield Associates have been tracked since 2008. Other items over 90 days late are:

- Chicago Climate Exchange \$5,000 which was billed in January 2010 but has gone out of business. The payable will be written off in 2012. This amount should be a pro-forma for the test year. Refer to the Recommended Adjustments portion of this report.
- Power Advisor LLC and Upton & Hatfield are payables related to a lawsuit that has not been resolved. The total outstanding is \$37,184.
- \$325 paid to the Safety and Health Council was charged on a credit card and is a duplicate entry. Refer to the Recommended Adjustments portion of this report.
- The State Utility Property Tax is booked to Accounts Payable at the beginning of the year, in full. Quarterly payments are made, but due to the manner in which the invoice is booked, it appears to be late. The total payable at 12/31/2011 was \$12,707.
- Other payables to the State of NH, which appear to be past due over 90 days, sum to \$54,725.

The general ledger total of \$955,878 agrees with the PUC annual report and with the filing, schedule 2 page 2 of 2.

### Plant in Service

Total Plant in Service at year-end 2011 as reported on the filing schedule 2, page 1 of 2 is \$11,826,046. In total, this amount agrees with the Table 11 of the PUC annual report and the general ledger. Power Plant Equipment account #1-2515 on table 11 is comprised of account #1-2508, Leasehold Improvements/Wood Burning Equipment totaling \$311,623, account #1-2512, Wood Yard Equipment totaling \$118,949, account #1-2575, Turbine Assets totaling \$19,762 and account #1-2580, Plant Safety Improvements totaling \$20,419.

### Plant Additions – 2009/2010/2011

The following lists the projects reviewed by Audit:

<u>Account Description</u>	<u>Asset Description</u>	<u>Amount</u>
<u>2009</u>		
Rundlett Line	Underground Mains	714,875
<u>2010</u>		
Pleasant St. Expansion Jt.	Underground Mains	15,172
Pleasant Street Leak	Underground Mains	17,771
#3 Jet Belt Fire	Plant Equipment	30,689
McLeod's	Plant Equipment	14,557
#6 Wood Screws	Plant Equipment	48,094
<u>2011</u>		
Spring St. Reno/Kimball	Underground Mains	64,039
#5 Boiler	Plant Equipment	28,540
Boiler Tubes	Plant Equipment	<u>57,930</u>
		<b>991,667</b>

Also reviewed were additions to plant for the years 2009 and 2010 (representing the years since the prior audit). Audit tied each invoice from the project job folder to the Job Activity Detail which listed each posting for a specific project.

#### Customer Meters

Customer Meters, account #1-2530, was shown on the Fixed Asset Detail with additions totaling \$37,725. This amount agrees with the general ledger and table 11 of the 2011 PUC annual report and represents new and replaced meters completed during the year. The test year ending balance in the account totaled \$156,171 agrees with the general ledger and the PUC annual report.

The fixed Asset Detail shows three new projects metered, therefore there were no retirements for the test year.

#### Construction Labor Overhead

Per the Company, when using their personnel for the project, they allocate the man hours to the project at cost plus burden at 1.33. Audit reviewed the accounts for the proper allocation of overhead with no exceptions. The Company states that they do not mark-up materials and supplies and include administration costs only as a portion of the 1.33 labor rate.

#### Construction Work in Progress

The Company uses account #1-2516, Special Fixed Asset (FA) Account to book unfinished construction. This account totaled \$88,710 and was comprised of mains for future use and a replacement burner for the #1 boiler. Account activity for the test-year was limited to a year-end adjusting entry in the amount of \$1,929. The account total agrees with the filing Schedule 2, page 1 of 2, the general ledger and the 2011 PUC annual report.

#### Retirements

The PUC annual report shows retirements of \$14,406 during the test year. The total was spread across plant equipment, services, office equipment and shop equipment.

Audit traced adjusting journal entry #11 to the Company's general ledger and Fixed Asset accounts as follows with no exceptions noted:

#1-2565	Depreciation	\$14,406	
#1-2515	Plant Equipment		\$9,990
#1-2525	Services – Main to Meter		\$1,315
#1-2535	Office Equipment		\$3,023
#1-2545	Shop Equipment		\$78

Construction Contribution to Others

Account #1-2506, Construction Contribution to Others, reflects a balance of \$31,000. The PUC annual report shows this total on the plant listing, as Other Production Equipment. This amount represents a 6" gas main purchased from EnergyNorth for use by Concord Steam. It is being depreciated over 75 years or 1.67% (the estimated useful life of underground mains), with depreciation of \$520 per year shown as a component of the total depreciation in account #1-2565, Accumulated Depreciation.

Contributions in Aid of Construction (CIAC) and Amortization

The 2011 PUC annual report shows CIAC with a year-end credit balance of \$671,975. The general ledger accurately reflects this balance in account #2-3530, Contributions in Aid of Construction. Audit was provided with a detailed schedule of the mains and services which comprise the \$671,975. This total agrees with the filing schedule 2, page 2 of 2 and the Summary of Fixed Assets Report.

Accumulated Amortization to CIAC Received, account #1-2570 shows a 2011 year-end debit balance of \$89,379. The general ledger shows an adjusting debit entry of \$9,668. This amount agrees with the PUC annual report and filing Schedule 2, page 2 of 2.

Amortization Expense Account #6-6135

The filing Income Statement Schedule #1 reflects amortization expense at year-end of (\$6,875). The filing also reflects amortization below the line of \$2,793. The filing therefore reflects a net credit of (\$4,082) when in fact the net credit per the general ledger is (\$6,875).

	Per Filing	General Ledger
Amortization of CIAC	(\$6,875)	(\$9,668)
Amortization of Cost of Financing	<u>\$2,793</u>	<u>\$2,793</u>
Net amortization	(\$4,082)	(\$6,875)

Adjusting journal entry #10 incorrectly posted the Amortization of CIAC to the amortization account used for the Deferred Financing costs. The entry was:

#1-2570 CIAC Received Accumulated Amortization	9,668	
#6-6135 Amortization Expense		9,668

The credit portion of adjusting entry #10 should have been posted to account #6-6136, Amortization – CIAC Received **Audit Issue #1**.

This would have no effect on the income statement but would separate the CIAC Received Amortization Expense from the Cost of Obtaining Financing Amortization

Expense, account #6-6135. For further information, refer to the Debt portion of this report.

### Accumulated Depreciation and Depreciation Expense

Total Accumulated Depreciation, account #1-2565 reflected a year-end credit balance of \$6,001,809. This agreed with the amount reported within the 2011 PUC annual report, and the amount reported on schedule 2, page 1 of 2 of the filing.

Depreciation expense reported for the year within both the PUC annual report and general ledger account #6-6130 was \$250,327. The general ledger shows 11 monthly entries of \$20,172 and a year-end adjusting entry of \$28,427. Audit reviewed the depreciation rates used with no exceptions noted. Adjusting entries for 2011 were to true-up the total amount and to remove the depreciation associated with the disposal of assets.

### Materials and Supplies

Materials and Supplies totaled \$210,811 on filing Schedule 2, page 1 of 2 and agrees with the 2011 PUC annual report, table 20 and the general ledger. The total is comprised of the following:

Account #1-2000, Oil Inventory	\$119,569
Account #1-2010, Wood Inventory	9,983
Account #1-2005, Prepaid Oil Additive	1,549
Account #1-2030, Parts and Supplies Inventory	78,350
Account #1-2035, Chemicals Inventory/Salt	<u>1,360</u>
	\$210,811

Audit requested clarification of the Parts and Supplies account, which was unchanged during the test year. The Company indicated that the balance represents parts and supplies used for maintenance at the plant and for the distribution lines. When asked why the account did not reflect activity, Audit was told that as supplies are used then replaced, and posted to the expense accounts, a manual listing of the items on hand is maintained. The Company does not have the manpower to maintain an inventory system. The balance in the account was not substantiated. **Audit Issue #2**

### Debt

Short term Debt – Account #2-3065 - \$862,642

Concord Steam has a line of credit through the TD Banknorth, not to exceed \$1,750,000, which was approved by Commission Order No. 25,029 dated 10/27/2009. The Order indicated that the approval was effective for six months from the date of the Order, after which time, the overall approved short term debt limit would revert back to

\$1,200,000. The \$550,000 increase represented a short term loan through TD Bank based on the receivable from the Concord School District. The loan covered the extension of a new steam line to the Rundlett Middle School which agreed, through the District, to finance a bond to cover the extension. The bond was issued by the District and Concord Steam was paid in 2010. The short term loan was paid in full in 2010.

Audit reviewed account 2-3065 and the activity during the test year did not exceed the authorized credit limit noted in the Order. The general ledger balance at year-end 2011 was \$862,642. The filing Schedule 6 Exhibit 6 reflects the line of credit authorized amount to be \$1,200,000 with \$1,104,929 outstanding at 12/31/2011. Audit requested clarification of the outstanding line of credit and was provided with a response to Staff Data Request 1-5 in which the balance was explained to be \$862,643, in line with the general ledger. No exception. Audit reviewed the Staff Data Requests 1-25, 1-26, and 2-6 regarding the debt service covenants and TD Bank waivers of those covenants during the test year.

Interest expense related to the line of credit amounted to \$36,117. Audit reviewed the invoices received from TD Bank and noted that the interest posted to account #6-6636, Credit Line Interest with no exceptions noted.

#### Long term Debt

Long term debt in the amount of \$552,762 was verified to the filing schedule 6, exhibit 2 and to the following general ledger accounts without exception.

Issued 11/08/2006 \$995,580 term loan	\$545,810	account #2-3506
Issued 04/09/2008 \$23,063 truck loan	<u>\$ 6,952</u>	account #2-3507
	\$552,762	

The term loan received Commission approval via docket DG 06-111, Order #24,673. Audit reviewed an amendment to the note, dated 10/11/2011, which reduced the interest rate per year to 4.07% and extended the maturity to 10/1/2013. The extension is authorized by the original Order approving the debt.

As noted in the prior audit, the truck loan was approved by the Commission via docket DG 08-034, Order #24,832. The approval outlined a \$24,000 interest free loan to be repaid in 60 monthly installments. The Company reported that the dealer was unable to obtain the 0% interest rate, and to rectify the situation, the dealer lowered the cost of the vehicle by the amount the interest would generate. The purchase price of \$23,063 at 2.9% interest for 60 months calculates to a total financed cost of \$24,803. Audit reviewed the fixed plant detail and noted that the cost basis of the truck is listed at \$23,118. A down-payment of \$1,741 is not included.

Payables to Affiliate Companies- Account 2-3511 - \$200,000

P&M Realty, an affiliate of Concord Steam, advanced to Concord Steam \$200,000 in 2010. The activity in the account reflects short term movements of cash between related companies, and reflected various paydowns during the test year. In August 2011, the amount owed to P&M Realty was zero. The zero balance was maintained until mid-November 2011, when the account was credited with \$200,000.

Refer to the Company response to Staff Data Request 1-5 in which the Company indicated that the \$200,000 loan is “in the nature of a capital contribution to cover operating expenses. There is no interest charged...”

Long Term Debt Interest Paid – Accounts #6-6637 and #6-6638 - \$30,757

Interest paid on the two long term debts was verified to account #6-6637, Term Loan Interest, in the amount of \$30,409 and account #6-6638, Truck Loan Interest in the amount of \$348. Due to the immateriality of the annual expense, further review was not conducted.

Accrued Interest – Account #2-3027 - \$195

Accrued Interest account #2-3027 reflects a year-end balance of \$195. The balance was unchanged from 2010. The Company does not accrue interest. Rather, interest is expensed as it is paid, as the payments are due on the first of each month.

**Audit Issue #2 and Repeat Audit Issue #3**

The immaterial amount noted as accrued interest was noted within the Miscellaneous Current Liabilities in the PUC annual report. Refer to the Miscellaneous Current Liabilities section of this report for additional information.

Cost of Obtaining Financing-net \$3,956

Total cost of financing was verified to the general ledger account #1-2600 and the related accumulated amortization of the costs was verified to account #1-2601. The net amount was verified to the filing balance sheet, schedule 2 page 1 of 2 without exception.

#1-2066 Costs of Financing	\$10,241
#1-2601 Accumulated Amortization of Financing Costs	( 6,285)
Net	\$ 3,956

Costs of obtaining financing are being amortized over 60 months. Monthly debits were noted in the Amortization account #6-6135 for a total of \$2,793. An incorrect adjusting entry in the account reflected a credit for the year of \$9,668 with the description of “AJE #10 CIAC Accumulated Amortization”. The resulting Amortization expense for the year is \$6,875 credit. The adjusting entry should have posted to account #6-136,

Amortization-CIAC Received. Refer to the Contributions in Aid of Construction section of this report for further detail, and to Audit Issue #1.

Miscellaneous Current Liabilities – net \$33,282

Audit verified the following general ledger accounts in total to the PUC annual report account #230.1, Miscellaneous Current Liabilities. Specific testing and further detail can be found in the referenced section of this audit report. O&M indicates the Expense section of the report.

#2-3000 Accrued Taxes-FICA	\$ 1,174	Refer to the Tax Section
#2-3011 Accrued Employee Other Deductions	\$ (3,565)	Refer to the O&M Section
#2-3012 Accrued Payroll	\$15,347	Refer to the O&M Section
#2-3013 Accrued Child Support	\$ 232	Refer to the O&M Section
#2-3014 Accrued Medical and Dental	\$ (999)	Refer to the O&M Section
#2-3020 Accrued Taxes-FUTA	\$ (30)	Refer to the Tax Section
#2-3025 Accrued Taxes-SUTA	\$ 297	Refer to the Tax Section
#2-3027 Accrued Interest	\$ 195	Refer to the Debt Section
#2-3045 Miscellaneous Current Accruals	\$20,279	see discussion below
#2-3050 SEP/IRA Deposits	\$ (13)	Refer to the O&M Section
#2-3055 Aflac-pre tax	\$ 413	Refer to the O&M Section
#2-3056 Aflac-after tax	<u>\$ (50)</u>	Refer to the O&M Section
Total	\$33,282	

The Miscellaneous Current Accruals noted in account #2-3045 were verified to a beginning balance of \$39,834. Audit requested clarification of what the accrual represents and was directed to the adjusting journal entries. While those entries were not specific, Audit was informed that during the test year approximately \$10,000 represented payments due to OSHA. The fine to which the figure related had been expensed fully in 2010. The remaining balance was unsubstantiated. Refer to **Audit Issue #2**

Taxes

Nathan Wechsler & Company prepared the 2011 Federal 1120 Income Tax return and the New Hampshire Business Tax returns. Copies of those returns were provided to Audit for review.

Federal Taxes Accounts #2-3035 and #6-6164

The Company's federal 1120 tax return for 2011 reflected gross receipts of \$4,849,990 less cost of goods sold of \$2,834,764 resulting in a gross profit of \$2,012,965 from which deductions of \$2,284,575 were made which resulted in a taxable loss of \$271,610; therefore, no federal tax was due for the test year. Accordingly account #2-3035, Accrued Taxes Federal and account #6-6164 Taxes (1120 Federal) from the Company's general ledger reflected no activity.

Total revenues as reported on Schedule 1 of the rate filing were \$4,853,437, total operating revenue as reported on Table 41 of the PUC annual report was also \$4,853,437, \$3,447 more than what was reported for federal income tax purposes.

The federal 1120 tax return also indicated that in addition to the taxable loss from 2011, the Company has net operating loss deductions available from 2008 of \$466,061 and 2009 of \$375,220 which can be applied to future tax periods.

#### State Business Taxes Accounts #6-6166, 2-3030 and #6-6165

The NH Business Enterprise Tax (BET) for the year as calculated by the CPA was \$7,184. The Company applied CDFA-Investment Tax Credits of \$7,184 against the tax due and requested a refund of (\$7,040). The refund was a result of \$4,967 of estimated payments recorded in the general ledger in account #6-6166, State BET Taxes and a credit carry-forward from the prior period of \$2,073. An adjusting journal entry was debited to account #2-3030, Accrued Taxes – 1120 NH, for \$6,167. This amount, when combined with the \$870 debit beginning balance, resulted in an ending debit balance of \$7,037. The offset of the adjustment was to account #6-6166, State BET Taxes, which zeroed out the account.

Because the company had negative \$313,160 of adjusted gross business profits, no Business Profits Tax (BPT) was due for 2011, account #6-6165, 1120 NH Tax (NH Bus. Profits) reflected a zero balance with no activity for the year.

While not included in the NH business tax returns, the CPA's calculation of the deferred tax items indicates that the Company has \$1,262,283 of net operating losses available to be applied against positive taxable gross business profits in future years.

#### CDFA - Investment Tax Credit Account #6-6170

The Company made two contributions of \$5,000 each to the NH Community Development Finance Authority for the Bridges House renovations project during the test year on June 1 and on December 6. Both contributions are reflected in the general ledger in account #6-6170, Contributions / Donations.

The donations entitled the Company to a state tax credit equal to 75% of the contribution, which calculates to \$3,750 for each donation, or a total of \$7,500 against certain state taxes including the Business Enterprise and Business Profits tax. If the tax credit exceeds the tax liability in the year of contribution, the excess amount may be carried forward for five succeeding years from the date of contribution until fully claimed. The Company applied \$7,184 to its BET tax, leaving a balance of credit available to carry forward of \$316. The Company is also entitled to a federal charitable contribution deduction.

Deferred/Accrued Taxes Accounts #1-2055, #2-3060 and #6-7050

Deferred income taxes for the year were calculated by the external accountant. A debit adjusting entry (#12) of \$54,836 was posted to account #1-2055, Deferred Tax Debit. The beginning balance of the account was \$586,294. The adjusting entry increased the account to the end of the year balance to \$641,131. The corresponding credit offsets were to account #2-3060, Deferred Income Tax Credit, in the amount of \$11,968 and to account #6-7050, Deferred Tax Provision for \$42,868. The resulting year-end balance of account #2-3060 was \$1,168,377 and the year-end balance of account #6-7050 was \$42,868.

All deferred tax amounts were traced to the federal tax return (statements 7, 10 and 13), the Balance Sheet and Income Statements of the annual report (tables 32, 33, 36) and the Deferred Tax Provision of (\$42,868) was reported under the taxes section of Schedule 1 of the rate filing.

Payroll Taxes

Audit compared the amounts recorded in the general ledger against the year-end payroll registers (payroll summary, payroll activity-summary and tax detail –by employee), the payroll tax returns (FUTA annual 940, 941 quarterlies and SUTA quarterlies) and the annual report.

Employer FICA Account #6-5200 and Accrued Taxes FICA/Med Account #2-3000

The FICA activity is filed quarterly on Employer’s Quarterly Federal Tax Return, Form 941. The return reports the wages, tips and other compensation paid for the quarter, the income tax withheld, the employer and employee Social Security tax and the employer and employee Medicare tax. CSC’s 2011 FICA quarterly returns indicated the following:

2011 FICA (941) Tax	Wages, Tips & other Comp.	Income Tax withheld	Taxable wages	Social Security Tax* (.104)	Medicare Tax** (.029)	Adjust- Sick Pay	Total Tax
Jan-Mar	222,749	26,632	226,159	23,521	6,559		56,711
Apr-Jun	217,787	23,195	221,391	23,025	6,420		52,640
Jul-Sep	209,775	22,032	213,674	22,222	6,197	32.88	50,484
Oct-Dec	202,476	21,110	206,466	21,472	5,988	139.34	48,709
	852,788	92,970	867,690	90,240	25,163	172.22	208,545

\*Social Security tax rate for employers was 6.2% for employees was 4.2% total of 10.4% or (.104).

\*\*Medicare tax rate for both employers and employees was 1.45% \* 2=2.90% or (.029).

General ledger account #6-5200, Employer FICA, incurred \$67,585 of debits (including the year-end accrual of \$1,174), \$1,140 of credits (including a reversal of

\$1,076 and an adjustment #7 of \$64) all of which resulted in net activity of \$66,446, the year-end balance of the account. .

General ledger account #2-3000, Accrued FICA /Med, began the year with a beginning credit balance of \$1,060, incurred \$116,723 of debits (including a reversal of \$1,076), \$116,837 of credits (including year-end accrual of \$1,174 and an adjustment #7 of \$181). The activity recorded throughout the year resulted in net activity of \$114 and an ending credit balance of \$1,174.

The YTD payroll reports reflected FICA-Medicare Matching \$12,582 and FICA-Soc. Sec. Matching \$53,797 for a total of \$66,378.

The difference between the general ledger expense account of \$66,446 and the YTD payroll totaling \$66,378, \$67, consisted of five entries. The two largest were a credit reversal entry of \$1,077 and year-end credit accrual entry of \$1,174.

Audit has determined, using the quarterly 941's that the proper amount of FICA activity attributable to the test year should be:

Total employer Social Security	\$53,797	(\$867,689.62 * 6.2%)
Total employer Medicare	\$12,582	(\$867,689.62 * 1.45%)
	\$66,378	

The PUC annual report included the amounts from the general ledger expense account of \$66,446. This figure includes some final quarterly activity from 2010 and does not reflect all of the activity from 2011. The net amount over-statement of the expenses is an immaterial \$67.

SUTA Account #6-5202, SUTA Admin. Contrib. Account #6-5204 and Accrued Taxes-SUTA Account #2-3025

State Unemployment Tax Administration (SUTA) is paid quarterly based on the total gross wages paid for the quarter, less wages paid in the quarter in excess of \$12,000 per employee for the year, the resulting net taxable wages. Net taxable wages are multiplied by the Unemployment Insurance (UI) Tax rate, which is determined by the Company's unemployment experience and therefore changes from time to time.

A separate administrative contribution charge is also assessed by the State for administering the SUTA and is calculated by multiplying an Administrative Contribution (AC) rate by the net taxable wages.

The 2011 SUTA quarterly returns indicated the following (note the tax rate increase from 5.10% for January through June to 5.60% for July through December):

2011 SUTA	Total Gross Wages Pd This Qtr	Wages Pd This Qtr >\$12,000 p/Employee This Year	Net Taxable Wages	UI Tax Rate	Tax	AC Rate	AC Fee	Total
Jan-Mar	226,805	53,919	172,889	5.10%	8,817	0.20%	346	9,163
Apr-Jun	223,181	196,605	26,575	5.10%	1,355	0.20%	53	1,408
Jul-Sep	215,524	194,790	20,734	5.60%	1,161	0.20%	41	1,203
Oct-Dec	208,252	203,157	5,125	5.60%	287	0.20%	10	297
	\$873,764							\$12,071

General ledger account #6-5202, SUTA, incurred \$12,845 of debits (including a year-end accrual of \$287) \$807 of credits (including a reversal of \$803) all of which resulted in net activity and an ending balance of \$12,038.

General ledger account #6-5204, SUTA Administrative Contribution, incurred \$493 of debits (including a year-end accrual of \$10) that resulted in net activity and an ending balance of \$493.

General ledger account #2-3025, Accrued Taxes-SUTA, started the year with a credit balance of \$701, incurred debits of \$7,395 (including a reversal of \$803 and a year-end adjusting entry "AJE #7 Payroll Taxes" of \$46) credits of \$6,991 (including a year-end accrual of \$297) which resulted in net activity of \$404 and an ending credit balance of \$297.

The total SUTA (from both expense accounts) as reported on the general ledger was \$12,530, the SUTA tax returns totaled \$12,071 and the YTD payroll reports reflected SUI-NH of \$6,694.

The YTD payroll registers reported SUTA (reflected as SUI-NH on the YTD payroll reports) expense of \$6,694.

The difference between the SUTA expense reflected on the YTD payroll reports of \$6,694 and the ending balance of the SUTA general ledger expense account of \$12,038 is \$5,344. It appears that the amounts being calculated for SUTA when running the payroll, are not being calculated at the proper amounts. Therefore additional expenses are incurred each quarter in the general ledger that are not reflected on the payroll reports.

Audit determined that the proper SUTA tax expense attributed to the test year is \$12,071, the total of the 2011 SUTA tax returns attributed to the test year payroll. The PUC annual report included the amounts from the general ledger of \$12,530, which included some of the final quarterly activity for 2010 and did not reflect all of the final quarterly activity for 2011 a net difference of \$459. Refer to the Recommended Adjustments portion of this audit report.

FUTA Account #6-5203 and Accrued Taxes FUTA Account #2-3020

General ledger account number #6-5203 incurred debits of \$1,177, no credits, which resulted in net activity and an ending balance of \$1,177.

General ledger account #2-3020 began with a beginning debit balance of \$0, incurred \$1,083 of debits (including a year-end adjustment #7 of \$153), and \$1,054 of credits. The activity recorded throughout the year resulted in net activity and year-end balance of \$29.

The annual Federal Unemployment Tax (FUTA) return Form 940 is based on:

total payments to all employees	\$873,824
less exempt payments	\$ 31,651
less payments made for empl in excess of \$7,000	<u>\$710,430</u>
Total Taxable FUTA wages	\$131,742

The taxable wages were multiplied by 0.008 for the wages paid before July 1, 2011, \$116,989, and taxable wages paid after June 30, 2011, \$14,754 were multiplied by 0.006 for a total tax due of \$1,024.

The ending balance of the FUTA expense account #6-5203 was \$1,177. The FUTA tax return Form 940 reported taxes due of \$1,024. The payroll reports reflected \$1,054. As with the SUTA tax it appears that the amounts being calculated for the FUTA payable and expense when running payroll are not being calculated at the proper amounts. Therefore, additional expenses are incurred each quarter in the general ledger, which are not reflected on the YTD payroll reports. A difference of \$123 was identified between the YTD payroll registers and the general ledger. The difference was tied back to a debit entry in the general ledger FUTA expense account entitled "Purchase; EFTPS". Additionally it was noted that the Accrued Taxes FUTA, liability account was not reduced by this amount.

Audit determined that the proper FUTA tax expense attributed to the test year is \$1,024, the amount reflected on the FUTA tax return attributed to the test year payroll. The PUC annual report included the amounts from the general ledger expense account of \$1,177 which included some activity from the final quarter of 2010 and does not reflect all of the activities from the final quarter of 2011 a net difference of \$153. Refer to the Recommended Adjustments portion of this report.

Utility Property Tax Accounts #6-6141 and #1-2051

The State of NH utility property tax return for 2011 reported annual utility tax due of \$24,109 based on an assessed value of \$3,652,939 and a \$6.60 tax rate. Quarterly tax estimates of \$6,006 (2010 tax \$24,023 / 4) were due April 15, June 15, September 15 and December 15. The return indicated that \$12,012 of estimates had been made timely and the additional tax of \$12,098 was due at the time of filing. The Company also calculated

a penalty for under payment of estimates of \$109. The penalty was properly posted to account #6-2300.

The tax due for the test year 2011 of \$24,109 was recorded as a debit in general ledger account 6-6141, Property Tax – Utility (the only activity in the account and also the ending balance). No activity was recorded in account 1-2051, Prepaid Utility Property Tax and reflected a zero balance. Audit noted the \$24,109 in the taxes section, property, of schedule 1A of the rate filing and as a portion of the property taxes expense reported on the income statement (pg. 200), Operation and Maintenance – Steam section of the annual report (table 33 pg. 112).

PUC Assessment Account #6-6570

General ledger account #6-6570, PUC Tax, started with a zero balance, incurred debits of \$24,350 (including a reversal of \$9,313.50 and an adjustment “AJE #5 & #9 Misc. Accruals” of \$593.50) and a credit of \$8,562 to reflect PUC Tax accrual (the debit offset of which was to account 2-3045, Misc. Current Accruals). The activity throughout the year resulted in net activity of \$15,788 which was also the ending balance in the account.

Audit confirmed that the \$15,788 ending balance of PUC assessment expense indicated in the general ledger in account 6-6570, PUC Tax, was also the amount reported in the annual report, (account 1797, Table 42-s pg. 203) and also included in the Operating Rents, net Schedule 1 of the rate filing. Please refer to the Accounts Payable and Operations and Maintenance sections of this report for further information.

Audit determined that the proper PUC assessment related to the test period 2011 was \$17,133 demonstrated below:

PUC Assessment SFY 7/1/10-6/30/11		PUC Assessment SFY 7/1/11-6/30/12		2011 Test Year
01/15/11	04/15/11	08/10/11	10/15/11	Total
\$4,634	\$4,633	\$ 3,232	\$4,634	\$17,133

Therefore, the filing should be adjusted to increase the expense related to the PUC assessment by \$1,345. Refer to the Recommended Adjustments portion of this report. See also **Audit Issue #3**

City of Concord Property Tax Accounts #1-2050 and #6-6140

Property taxes for the plant and distribution system located in the City of Concord were posted to expense account #6-6140, Property Tax – City which reflected debits totaling \$115,290, consisting of an entry for \$26,507 (offset credit was to accounts payable, 2-2000) and monthly entries of \$8,035 for January through June and \$8,115 for

July through November. Credits totaling \$18,459 were reflected consisting of two adjusting entries (a reversing entry for \$12,605.41 on January 1, with the offset to accounts payable and the second, "AJE#3 Prepaid Property Tax" for \$5,853). The activity recorded throughout the year in the account resulted in net activity of \$96,831 which was also the ending balance in the account. Activity offsetting these entries was noted in the Prepaid Property Tax account #1-2050 without exception.

City property taxes which tied to the general ledger were reported to be \$96,831 on Schedule 1 (detailed in schedule 1A) of the rate filing and on the annual report (account 1507, Table 33 pg. 112).

The Prepaid Property Tax general ledger account, #1-2050, reflected the mirror image of the expense entries above. Balance at both the beginning and ending of the test year was zero.

Audit compared the general ledger activity and payment activity totaling \$101,103 (consisting of three payments) against the property tax assessments from the City of Concord. Semi-annual assessments are issued requiring quarterly payments which are due after the covered period (in arrears) on July 1 (for April-June), October 1 (for July-September), January 2 (for October-December) and March 31 (for January-March).

The City mailed the second property tax assessment for tax year 2010 on November 24, 2010 which billed for the period October 2010 through March 2011 reflecting the following valuations:

Property Valuations as of November 24, 2010	
Right of way	7,800
Pleasant Street land and buildings	1,067,300
Distribution System	3,639,900
	4,715,000

The total due for the three parcels was \$53,014, with \$26,507 due January 2, 2011 and \$26,507 due March 31, 2011.

The first property tax assessments for the tax year 2011 were mailed on May 27, 2011 which billed for the period April through September of 2011. The total due for the three parcels was \$48,681 with \$24,336 due on July 1, 2011 and \$24,345 due on October 1, 2011.

The second assessment for tax year 2011 was mailed on November 23, 2011 which covered the period October 2011 through March 2012 with the following valuations:

Property Valuations as of November 23, 2011

Right of way	7,600
Pleasant Street land and buildings	1,067,300
Distribution System	<u>3,639,900</u>
	\$4,714,800

The total due for the three parcels was \$55,102 with \$27,551 due January 2, 2012 and \$27,551 due on March 31, 2012. No payments were made toward this assessment before the end of test year 2011.

The following payments were made:

- On February 17, 2011 CSC made a payment of \$50,123 comprised of \$23,207 from the billing of May 27, 2010 for 2010 (due October 1, 2010) and \$26,916 from the November 24, 2010 billing also for 2010 (due January 2, 2011) the payment included \$1,431 of interest, which was properly posted to account #6-2300, Interest Paid.
- On April 13, 2011 CSC made electronic payments totaling \$26,635 for the November 24, 2011 billing (due March 31, 2011). The payment included \$113 of interest which was recorded as property tax rather than interest in the general ledger. Refer to the Recommended Adjustments portion of this report.
- On June 2, 2011 CSC paid \$24,345 for the May 27, 2011 billing (due July 1, 2011). The payment was made before the due date, with no interest due.

Per PUC Audit analysis, the tax liability for the property located in Concord that related to the test year 2011 totaled \$102,739 and consisted of the following:

Bill Date	Due Date	Period	Amount
11/24/10	03/31/11	Jan-Mar 2011	26,507
05/27/11	07/01/11	Apr-Jun 2011	24,336
05/27/11	10/01/11	Jul-Sep 2011	24,345
11/23/11	01/02/12	Oct-Dec 2011	<u>27,551</u>
			\$102,739

Audit agrees with the ending balance of the prepaid property tax account #1-2050 of zero. As of the end of the test year 2011 CSC should reflect \$51,896 as accrued (due but not paid until 2012). **Repeat Audit Issue #3**

Town of Pembroke Property Tax-Wood Yard Accounts #1-2052 and #6-9600

Property taxes for the wood yard located in Pembroke were posted to account #6-9600, Property Tax Yard, which reflected debits only totaling \$24,168 (including an adjusting entry "AJE #3 Prepaid Property Tax" for \$882) with net activity and an ending balance of \$24,168. The account is included in the Cost of Energy annual reconciliation.

Account #1-2052, Prepaid Property Tax Yard, had a beginning debit balance of \$5,930, a debit of \$11,882 and credits totaling \$24,168 (including an adjusting entry "AJE #3 Prepaid Property Tax" for \$882) consisting of monthly entries of \$1,901 for March through June and \$1,980 for July through December. The activity throughout the year resulted in net activity of \$12,286 and an ending credit balance of \$6,356.

The Town of Pembroke issued the following property tax assessments:

- The second assessment for 2010 which covered the period October 2010 through March 2011 was issued on November 15, 2010, was for \$12,361 due on December 17, 2010.
- The first assessment for 2011 which covered the period April 2011 through September 2011 was issued on May 27, 2011, was for \$11,882 due on July 1, 2011.
- The second assessment for 2011 which covered the period October 2011 through March 2012 was issued on November 17, 2011, was for \$12,435 due on December 19, 2011 reflected the following valuations:

Buildings	324,600
Land	595,100
Total Values	<u>\$919,700</u>

Audit reviewed the payments made to the Town of Pembroke during the test year which consisted of two payments totaling \$24,349.

- The first of two payments in the amount of \$12,467, due on December 17, 2010 and made on January 10, 2011 was for the period October 2010 through March 2011. The payment included interest of \$106 which was recorded as taxes rather than interest. Refer to the Recommended Adjustments portion of this report.
- The second payment in the amount of \$11,882 due on July 1, 2011 and made on June 2, 2011 was for the period April 2011 through September 2011 and included no interest or fees.

Per PUC Audit analysis, the tax liability for the wood yard related to test year, 2011, totaled \$24,280 and is comprised of the following:

Bill Date	Due Date	Period	Amount
11/15/10	12/17/10	Jan-Mar 2011	6,181
05/27/11	07/01/11	Apr-Sep 2011	11,882
11/17/11	12/19/11	Oct-Dec 2011	<u>6,218</u>
			\$24,280

Audit has also determined that the ending balance of account 1-2052, Prepaid Property Tax Yard should be zero as of December 31, 2011 (since no taxes were paid before incurred/due as of the end of the year) and that as of the end of the test year 2011

CSC should reflect \$6,218 as accrued (due- but not paid until 2012). **Repeat Audit Issue #3**

Audit compared the wood yard property taxes of \$24,168 reported in the general ledger to what was reported on Schedule 1 (schedule 1A) of the rate filing. \$24,168 was verified as part of the total property tax \$145,109 in the annual report (Table 33 pg. 112).

### **Revenues**

The following is a comparison of the income as reported by Concord Steam for the test year 2011 from the various reports:

- Profit and Loss, Total Income (detailed & summary trial balance g/l) \$4,853,693,
- Rate filing, Schedule 1, Total Revenues \$4,853,437 and
- PUC Annual Report, Table 41, Total Operating Revenues \$4,853,437.

The difference of \$256 being interest included on the Profit and Loss (detailed & summary trial balance) which was not included in either the PUC Annual Report or the Rate Filing Schedule 1, see the detailed comparison schedule below.

Annual Report Acct No	General Ledger Acct No	Description per Annual Report / per Profit & Loss (G/L)	Profit & Loss (General Ledger)	PUC Annual Report Table 41	Rate Filing Sched. 1 & Sched. 4A
1600		Domestic Combination Service		2,647	
	4-5005	Residential Base Income (Usage)	1,398		1,398
	4-5030	Residential Energy Income (Fuel)	1,249		1,249
1602		Commercial Combination Service		1,567,416	
	4-5010	Commercial/Ind Base Income (Usage)	848,762		848,762
	4-5028	Commercial Energy Income (Fuel)	765,187		765,187
1604		Service to Public Authorities		2,670,752	
	4-5020	Public Authority Base Income (Usage)	1,398,910		1,398,911
	4-5029	Public Authority Energy Income (Fuel)	1,342,806		1,342,806
	4-5025	*Sales Discount	(117,498)		(117,498)
1608		Other Sales		94,733	
	4-5048	Sale of Electricity (to Unitil)	94,733		94,733
		Total Steam Service Revenues	4,335,549	4,335,548	4,335,548
		Meter Charges			29,710
		Other Steam Revenues			
1610		Miscellaneous Revenues		517,889	
	4-5040	Customer Penalties	2,842		2,842
	4-5049	Demand Response Income	3,456		3,456
	4-5061	Customer Service Parts	25,478		25,478
	4-5102	Rental Income Stack	5,000		5,000
	4-5115	Miscellaneous Income	(1,418)		(1,418)
	4-5062	Customer Service Revenue	452,781		452,781
	4-2200	Service Late Fees Collected	40		40
	5-5045	Meter Charges	29,710		
		Total Miscellaneous Revenues	517,889	517,889	488,179
		Total Operating Revenues	4,853,437	4,853,437	4,853,437
	4-5070	Interest Income	256		
		Total Income	4,853,693	4,853,437	4,853,437

\* Sales discounts totaling \$117,498 are reflected in total in the general ledger & Rate Filing columns and are incorporated into the Commercial (\$46,534) & Public Authority (\$70,964) Income in the Annual Report column.

Review of the different general ledger sales accounts #4-5005, #4-5010, #4-5020, #4-5028, #4-5029, #4-5030, #4-5045 and corresponding sales discount account #4-5025 revealed that all accounts started with zero balances and that activity including month end

entries/postings that were made (where appropriate) appeared to represent the monthly invoicing to customers.

#### Unbilled Revenues

Concord Steam's tariff indicates that "bills will be rendered within the first 15 days of each month for services during the previous month", however customers are billed monthly, in arrears, at month end. As a result there is no unbilled steam revenue at year end.

#### Temporary \$0.06 p/Mlb Rate Increase (Order No 25,100)

PUC Order No. 25,100 issued on May 6, 2010 granted CSC a temporary rate increase/surcharge to recover its rate case expenses of \$8,067 through a \$0.06 per Mlb for service rendered on or after June 1, 2010 until the costs were recovered. The order required CSC to track and report monthly rate case expense recoveries and once the expenses were recovered the temporary surcharge was to be terminated.

Audit requested the support for CSC's tracking of the recovery of the rate case expenses as required by the Order. While CSC did not file monthly reports with the PUC or establish a separate general ledger account to track the revenue, they did provide Audit with an Excel spreadsheet used to track the surcharge revenue based on the Mlbs invoiced each month. The tracking indicated that CSC applied the \$0.06 surcharge for June 2010 through May 2011 and collected \$7,913 of the \$8,067. CSC determined that the remaining \$155 was not material.

Audit verified that the Mlbs for January 2011- May 2011 on the tracking spreadsheet tied to the Mlbs reported for 2011-May 2011 on Schedule 1, Attachment 5 of the rate filing.

#### Customer Service Revenue Account #4-5062

General ledger account #4-5062, Customer Service Revenue, reflected an ending credit balance of \$452,781. This amount was included in Other Income, Schedule 1 of the rate filing and in the miscellaneous income section (account 1610, table 41) of the PUC annual report. The rate filing included a pro-forma adjustment of \$413,665 reducing the revenue to \$74,474. The adjustment was identified as revenue from the installation of service piping at the Christa McAuliffe School (job 6120-1101) for \$83,640; Abbot Downing School (job 6120-1102) for \$295,025; and a snow melt system at the Smile building (job 2553-1) for \$35,000. Associated expenses of \$328,420 were recorded in general ledger account #5-6120, Customer Parts/Supplies. Refer to the Operations and Maintenance portion of this report for further detail.

#### Sales Discount Account #4-5025

General ledger account #4-5025, Sales Discount is used primarily to account for the special contract rate discounts. Occasionally, miscellaneous credits to other customers are recorded in the account, such as when there is a meter or billing error. The ending balance of the account was \$117,498. Audit compared the 2011 balance against the 2010 balance of (\$9,913), a difference of \$107,585. When Audit inquired about the large variance between the two years CSC explained that before 2011 the discount was netted against the sales and no discount detail was brought forward to the accounting system. This process has been changed, now all sales and discount detail is brought forward to the accounting system.

#### Sale of Electricity Account #4-5048

Electricity generated in excess of that used by CSC was sold to Unitil. The Company no longer has a contract for the sale of excess electricity; rather, it is purchased by Unitil at the market rate.

The ending balance of account #4-5048 was \$94,733 and consisted of ten credit entries for sales periods January through October, representing payments for energy and capacity. The sales periods November and December, received in 2012, included energy but reflected an adjustment of \$15,823 for overpayment of capacity for July through December. The netted revenue totaled (\$2,663) decreased income for the test year. Refer to the Recommended Adjustments portion of this report.

Audit verified that the \$94,733 recorded in general ledger account 4-5048, Sale of Electricity (to Unitil) was included in the Other Sales section of the annual report (account 1608, table 41 pg. 203) and was also included in the Electricity Sales section of Schedule 1 of the rate filing.

#### Demand Response Income Account #4-5049

EnerNOC Managed Services manages CSC participation in the ISO-New England Demand Response Program (ISO-NE DRP). The DRP compensates large electricity users for reducing consumption when demand for electricity is high and/or when system reliability is at risk.

The ending balance of the Demand Response account was \$3,456 consisting of four credits which represented capacity payments for October 2010 through December 2010 in the amount of \$1,004 and January through September 2011 in the amount of \$2,453. The payment for October 2011 through December 2011 in the amount of \$1,289 was received in 2012.

While not material, the account should be adjusted for the removal of the 2010 income \$1,004 and for the accrual of October through December 2011 income of \$1,289

resulting in a net increase in income of \$285. Refer to the Recommended Adjustments portion of this report.

Audit traced the \$3,456 recorded in account #4-5049, Demand Response Income, to the miscellaneous revenues section of the annual report (account 1610, table 41 pg. 203) and to the other revenues section of Schedule 1 of the rate filing. Please refer to the Contracts, Agreements, Leases of this report for more information regarding this agreement.

#### Rental Income Stack Account #4-5102

The ending balance in account #4-5102, Rental Income Stack, was \$5,000 which consisted of five entries of \$1,000 for each month-end for February through June with no accruals for the remaining outstanding months.

Audit requested support for the payments; CSC explained that the only support they get is the remittance advice from the State of New Hampshire. A copy of the State remittance advice for July 2011 through February 2012 in the amount of \$8,160 which was dated February 16, 2012 was provided. The remittance advice reflected an increase of \$20 per month effective with the July 2011 payment. Audit asked why there were only 11 payments in 2011, CSC did not know but thought perhaps because of the lease renewal.

Based on the remittance advice, accrued income of \$6,120 (July-December 2011  $6 * \$1,020$ ) should be reflected for the remaining months of income outstanding in the test year. Refer to the Recommended Adjustments portion of this report.

Audit verified that the \$5,000 recorded in general ledger account #4-5102, Rental Income Stack was included in the Miscellaneous Revenues section of the annual report (account 1610, table 41 pg. 203) and was also included in the other revenues section of Schedule 1 of the rate filing.

#### Miscellaneous Income Account #4-5115

The general ledger account #4-5115, Miscellaneous Income reflected 24 debit entries of various amounts totaling \$81,077 and 24 credit entries also of various amounts totaling \$79,658. The activity recorded throughout the year resulted in net activity and an ending debit balance of (\$1,418).

When Audit asked about the debit activity in the account, the Company explained that they often uses the miscellaneous account as a clearing account for instances when a customer pays with one check for multiple accounts. The billing software does not allow them to apply more money than is due on the account. Debits and credits were noted to offset each other in those instances.

Audit identified two debit transactions totaling \$6,922 for which no matching credits were found. The Company explained that in these two particular incidents, it was a keying error. The debits were keyed to 2011, the credits were keyed to 2012. It was agreed that the miscellaneous income account should be increased by the \$6,922 Recommended Adjustments portion of this report.

The remaining miscellaneous income included \$4,243 in sales of scrap metal, a refund of \$1 for 941 tax and net income of \$1,174 from a transaction entitled 2011 Belmont. Audit asked for clarification of the 2011 Belmont, and was informed that the Belmont transaction was for a service job done for a customer that was unrelated steam service.

Audit verified that the \$1,418 ending debit balance was included in the Miscellaneous Revenues section of the annual report (account 1610) and was included within the other operating revenues section of Schedule 1 of the rate filing.

Accounts Receivable Account #1-1251

General ledger account #1-1251, Accounts Receivable, reflected a beginning balance of \$885,803, debits totaling \$5,030,653, credits totaling \$5,221,690, resulting in net credit activity of \$191,037 and an ending balance of \$694,766.

Audit requested and was provided with the aged accounts receivable listing as of December 31, 2011 which reported the following:

<u>Aging Increment</u>	<u>Amount</u>	<u>Percent</u>
Receivables due in 0 -30 days	633,394	91.17%
Receivables due in 31 - 60 days	49,409	7.11%
*Receivables due in 61 - 90 days	527	.08%
*Receivables due in 90+ days	11,435	1.65%
	<u>\$694,766</u>	<u>100%</u>

\* Reflected credits of \$8,896 which were explained as date entry errors and \$3,061 of budget payments.

The aged receivables listing for year-end was verified to the primary receivable account #1-1251, Accounts Receivable. Accounts Receivable as reported on the annual report, balance sheet, table 10 (account 125, pg. 100) was a netted number \$662,810 (further details were provided on pg. 107). Accounts Receivable as reported on the rate filing, Schedule 2, was also the netted number of \$662,810 consisting of:

#1-1251	Accounts Receivable	694,766
#1-1259	Allowance for Doubtful Receivables	(35,161)
#1-2042	Prepaid Employee Insurances	<u>3,205</u>
	Accounts Receivable Annual Report & Rate Filing	<u>\$662,810</u>

Allowance for Doubtful Receivables Account #1-1259

The allowance account #1-1259 had no activity during the year and at year-end was \$35,161. The allowance calculates to 5.06% of the ending accounts receivable. The allowance appears high based on the outstanding receivables over 60 days representing just 1.7% of the total receivable. CSC may want to consider adjusting the allowance account.

Uncollectable Steam Sales and Service Sales Written-Off Accounts #6-6175 and #6-6180

Audit requested and was provided with a listing of the accounts written off during the test-year. Audit also requested a copy of CSC's write-off policy but was informed that CSC does not have a standard policy for write-offs.

The uncollectable accounts written off during the test year were:

6-6175	Uncollectable Service Sales	235
6-6180	Uncollectable Steam Sales	<u>17,790</u>
		\$18,025

Audit asked about the following generic entries included in the steam sale write-offs because they did not provide any customer detail:

Write-off Commercial Steam	4,998
Write-off Commercial Energy	5,836
Sale, Commercial Steam Sale	<u>3,424</u>
	\$14,259

CSC explained that they use a separate billing system to calculate and create the invoices and when the previous bookkeeper was keeping the books she would enter a lump amount into the accounting system, using a generic entry without the individual customer detail. The procedure has been changed and now the individual customer detail is imported into the accounting system.

The write-offs equal approximately 3% of the ending balance of the Accounts Receivable and appear to be reasonable. However, a comparison of the 2011 write-offs to the 2010 write-offs which were \$906 indicates an increase of \$17,119.

Audit verified that the write-offs of \$18,025 were included in the Operations and Maintenance section of the PUC annual report (account 1783, table 42 pgs 204-205) and in the Operating Expenses section of Schedule 1 of the rate filing.

Customer Deposits Account #2-4000 Interest Customer Deposits Account #6-6639

Audit requested and was provided with a listing of the customer deposits. The listing tied to general ledger account #2-4000 and included only one customer deposit of \$600. Audit noted that the offsetting entry for the deposit was a debit to Accounts Receivable account #1-1251. **Audit Issue #4**

General ledger account #6-6639, Interest Customer Deposits, had a beginning balance of zero and no activity during the year.

The Companies tariff indicates "...interest will be paid on said deposit when held six months or more at a rate equal to the base rate on corporate loans at large U.S. money center commercial banks (Prime Rate)". The Company is reminded that PUC 1203.03(l)(2) requires "All deposits shall accrue simple annual interest from the date of deposit to the date of termination".

Billing Tests

Audit performed invoice testing to verify that the customer invoices were calculated in compliance with CSC's tariff.

CSC changed its invoicing system during October of the test year. Both systems displayed the rates, customer number, name, address, the billing period, meter number, meter location, previous meter reading, current meter reading, total use, steam charge, meter charge, total charge. The old system reflected prior unpaid balances, payments made during the billing period, billing adjustments and had a field identified for interest. The Company explained however that any adjustments (charges or credits) were not reflected on the invoices unless they were made on the first or last day of the month. The new system includes fields for meter adjustments and an aggregate volume discount field, but does not reflect payments, credits or adjustments. The old system did not reflect any notation for multiple meters/buildings that were aggregated but the new system includes an asterisk next to each meter number that is supposed to be aggregated.

Three random customer accounts (#419, #379 and #245) were selected for review by Audit (each account reflects one building/meter). All invoices for the year for each account were reviewed, with no exceptions were noted.

Audit also reviewed accounts which had been identified in prior audit to have had issues: accounts #400, #406, #409, #410, #411 and #420. Two other accounts that had been mentioned, #231 and #307, involved special contracts and are covered in the special contracts section below.

Two test months from each account were randomly selected for review. All of these accounts included multiple meters and buildings that in some cases are aggregated to achieve the volume discount. The volume discount is reflected in the Total Charges of

the invoice and is calculated on a meter by meter basis. The Aggregated Volume discount is applied to the Total Steam Charges to arrive at the Balance Due. The review revealed the following:

- Account 410-Concord School District--Includes multiple buildings (CHS-Day Care, High School \*2 and Concord High/old Blr) of which all but the Day Care are aggregated. Of the two months reviewed (November and December 2011):
  - November 2011, appears to not reflect an aggregate discount totaling \$429. The three meters that are indicated to be aggregated, collectively, reflected 688.8 Mlbs of usage which was all billed at the 0 -500 Mlb rate of \$18.54. When it appears that the first 500 Mlbs should have been billed at \$18.54 and the additional 188.8 Mlbs should have been billed at the next tier 500 Mlbs to 2000 Mlbs or \$16.27. When asked about this invoice, the Company agreed and explained that it “was an error in transitioning from the old billing software to the new. A credit was given to the account in the amount of \$429 for the discount.” Audit was able to identify that a discount for that amount was recorded in the sales discount account of the general ledger.
  - The second month, December 2011, did reflect the correct aggregate discount of \$1,843, no issues were identified.
- Account 420-Bureau of Facilities & Asset Management--Includes multiple buildings (Transportation, Carpenter Shop, Warehouse NH Hosp., Dolloff Bldg., Main Bldg. -2 meters, NH Hosp. Ldry, Ground shop & 4 paint shops) and meters that are aggregated together to achieve the volume discount sooner. Audit’s analysis of the two months reviewed (February and December 2011) revealed the following:
  - February appears to include a calculation error for meter #463. The meter indicates 1,839 Mlbs of usage and the specific meter charge was calculated to be \$59,426, an overall aggregate volume discount of \$11,833 was applied and the total amount billed was \$130,308. Audit calculated the specific meter charge to be \$61,767 (500 \* \$35.24 and 1,339 \* \$32.97) a \$2,341 variance, with an overall aggregate discount of \$11,119 with a total amount due of \$133,098. When asked about this invoice, the Company offered the following: “*Account 420 - On meter #463, it appears that there was an anomaly in the billing software beginning in Oct. 2010 that miscalculated the billed amount, and this anomaly carried throughout the heating season. While I had not noticed this particular meter's issues, this is an indication of why I made the move to a different software. The software was old, was no longer being supported. Generally speaking, it looks like the software consistently under billed this meter. The billing that would have shown in that line had it been correct is (500x18.60) + (1339x16.33) + (1839x16.64) + 40 = \$61,807. I checked older bills and found that this was the only meter showing the issue, and only starting from October 2010.*” See the Recommended Adjustments portion of this report.
  - December appears to be accurate, no issues were identified.

- Account 400-City of Concord --Includes multiple buildings (City Library, City Hall (2 meters) Comm. Ctr., Municipal Bldg. & Auditorium) and meters that are not aggregated. Audit's analysis of the two months reviewed (March and October 2011) revealed no identifiable issues.
- Account 406-State of NH--Includes multiple buildings (State House, Annex & Library) which are not aggregated. Audit's analysis of the two months reviewed (February and November 2011) revealed no identifiable issues.
- Account 411-State of NH Bureau of Gen Svcs.--Includes multiple buildings (Londergan, Londergan-Overflow, 64 South St, NHH Johnson Hall and 64 South St/Hot) both Londergan meters and the NHH Johnson Hall are aggregated and the two 64 South Street meters are not included in aggregation. Audit's analysis of the two months reviewed (January and November 2011) revealed no identifiable issues.
- Account 409-NH Hospital--Includes multiple buildings (Howard Rec, Pond Place, Koutras House, NHH-Twitchell, NHH Philbrook \*2 and Music) which are all aggregated to achieve the volume discount. Audit's analysis of the eight months revealed no identifiable issues.

Special Contracts

Audit requested and was provided with copies of the invoices for all customers with whom CSC has special rate contracts. During the test year, those included the following customers, along with the PUC Docket and Order approving the special rate:

<u>Customer</u>	<u>Docket</u>	<u>Order</u>	<u>Issued</u>
Acct 307-Denev Realty, LLC	DG 08-141	25,009	09/04/09
Acct 430-Concord School District/Rundlett Jr. High School	DG 09-154	25,030	10/27/09
Acct 231-Concord Family YMCA	DG 10-116	25,176	12/09/10

Audit performed invoice testing to verify that the invoices were calculated in compliance with each respective Order. It was noted that the temporary rate increase of \$0.06 per Mlb surcharge authorized by Order 25,100 (effective June 1, 2010 for approximately twelve months) was not consistently applied. CSC explained that all invoices for the special rate contracts are manually drawn up and occasionally the temporary increase was over-looked, but it was determined by CSC that the small amount of revenue from the temporary rate increase was not material. **Audit Issue #5**

Account 507-D. McLeod, Inc.

CSC provided invoices for D. McLeod Inc. which reflected that D. McLeod Inc. had been billed at the over 2,000 Mlb rate. However, when Audit was unable to locate an Order authorizing a special rate for D. McLeod Inc. and asked the Company to provide a copy of the Order authorizing the special rate, the Company responded that "apparently there was an oversight re: application for a special rate order and there isn't one". It

appears that D. McLeod should have been billed at the 0 -500 Mlb rate \$18.54. **Audit Issue #6**

Account 430-Concord School District/Rundlett Jr. High School -Order No. 25,030

The Order for Concord School District/Rundlett Jr. High school is for a ten year term commencing on November 1, 2009. As noted in the Order “Effectively, the District’s contribution for the construction of the steam line was the basis for the special rate offered by Concord Steam” and “...the term of the contract was designed to allow the District to recoup, over time, its contribution for the line extension to the school. After the contribution is repaid at the end of the contract term, Rundlett will be placed on normal tariff rates. As such, the contract is only as long as is necessary to ensure the addition and retention of the school load.” The school district contributed \$500,000 to cover the entire cost of a steam distribution main extension to the school. The Order also detailed that “The monthly rate under the contract is calculated by multiplying both the discounted delivery rate, initially set at \$5.00 per Mlb., and the effective COE rate, by Rundlett’s monthly usage. The District will also pay the standard monthly meter charge. The \$5.00 delivery rate is the floor of the rate, which may be increased annually to reflect general price increases in the marketplace”.

Audit’s analysis of the Rundlett invoices revealed the following:

- For eleven months of the test year the delivery rate billed was \$5.03 and for the remaining month (March) the delivery rate used was \$5.09 which included the temporary \$0.06 Mlb surcharge. Because the contract stated the base rate was \$5.00 Audit asked about the increase of \$0.03. CSC explained that the \$0.03 was due to a rate increase from 2010 but was unable to provide the “CPI for All Urban Consumers (CPI-U) Northeast” table indicated to support the 0.6% increase. Audit was unable to verify the 0.06% increase to the index indicated by CSC but calculated a rate increase of \$0.07, based on a 1.5% change from November 2009 to November 2010 reported on the “Consumer Price Index for All Urban Consumers (CPI-U) Northeast - All Items” found at the following link [http://www.bls.gov/ro3/fax\\_9131.htm](http://www.bls.gov/ro3/fax_9131.htm). **Audit Issue #7**
- The contract annual review date for a rate increase is November. No increase (other than the \$0.03) was noted in November 2011, CSC did indicate that a rate increase was made in November 2012. **Audit Issue #7**
- Of the twelve (12) invoices reviewed the temporary rate increase was only billed for one month, March, while the temporary rate increase was effective through May 2011. CSC was not consistent in its application of the temporary rate increase with regard to the special contracts which were calculated manually. **Audit Issue #5**

Account 231-Concord Family YMCA -Order No. 25,176

On April 28, 2010 CSC petitioned the PUC to amend its special contract for steam delivery service with the Concord Family YMCA. The Order No. 25,176, issued on December 9, 2010, amended the original contract (and Order No. 24,776 issued on July 12, 2007) which was for a term of 10 years that commenced on September 30, 2006 according to its terms (although the cover page states that the contract is effective on February 28, 2007) and essentially capped the YMCA payment but not the amount of steam they used.

The amended contract, which is to run for the remaining term of the initial contract, has been adjusted so that the contract year is synchronized to CSC's November through October Cost of Energy year, and provides that in addition to the standard COE rate and the meter charge:

- The base rate will be determined on a declining discount for volumes up to 5,000 per year (cumulatively) based on usage as follows (rate amounts shown are based on the rates in effect during the test year):
  - 0-4000 Mlbs (75% of lowest tier base rate) or  $\$13.48 * 75\% = \$10.11$
  - 4000-4500 Mlbs (80% of lowest tier base rate) or  $\$13.48 * 80\% = \$10.78$
  - 4500-5000 Mlbs (85% of lowest tier base rate) or  $\$13.48 * 85\% = \$11.46$
  - 5000+Mlbs (lowest tier base rate) or  $\$13.48$ .
- Order requires annual adjusted usage estimates based on the actual usage in the three most recent prior periods.
- CSC is required to display a running tally of any over-/under- recovery imbalance on each month's billing statement.
- CSC is required to keep a running tally of any differences between actual and estimated usage.
- Payments are to be adjusted at least quarterly to minimized over-or under-payments.

Audit's analysis of the Concord Family YMCA invoices revealed the following:

- A base rate of \$10.15 was used for January through May rather than \$10.11 (0-4000 Mlbs (75% of lowest tier base rate) or  $\$13.48 * 75\% = \$10.11$  or \$10.17 including the temporary rate increase of \$0.06) which resulted in a monthly variance of between \$11 in January to \$2 in May. CSC explained that this was a rounding error and that the \$10.15 included the temporary rate increase of \$0.06. In September a rate of \$10.34 was used and \$10.78 (the over 4000 level) was used for October through December resulting in variances of \$38 in September, \$195 in October, \$250 in November and \$320 in December. CSC explained that the \$10.34 rate used in September was a combined rate because the YMCA reached the cumulative 4000 Mlbs for the year and was billed at the next tier \$10.78 for the rest of the test year and all of 2012. While CSC's explanation may explain the variances for September and October, Audit determined that the cumulative usage should have been reset to zero on November 1, 2011 and the lower rate, \$10.11, should have

been charged for November and December 2011 and until the account reached the cumulative 4000 Mlbs. CSC agreed and is in the process of contacting the customer to correct the rate and issue a credit. CSC did not calculate the invoices in accordance with the special rate contract authorized by the Commission and in effect during 2011. **Audit Issue #8**

#### Account 307-Denev Realty LLC - Order 25,009

The Denev Realty special contract is for a term of 10 years commencing on October 15, 2008. The special contract provides in part "The monthly rate for this special contract will be a bundled "budget" rate" consisting of "...the sum of: (1) the normalized annual usage of 972.2 Mlbs multiplied by the cost of energy (COE) rate" "... in effect at that time divided by twelve months; plus (2) the normalized annual usage of 972.2 Mlbs multiplied by the tail block steam delivery tariff rate" "...then divided by twelve months; plus (3) the monthly meter charge of \$25, then rounded to the nearest whole dollar. This formula is to be used to determine new monthly rates every time there is a change to the COE rate, the meter charge, the steam delivery rate or the normalized annual usage. There is to be a reconciliation of costs and revenues whenever a rate change is necessary, with balances carried forward into the new rate calculation."

Audit's analysis of the Denev Realty LLC invoices revealed the following:

- A rate of \$13.48 was used for January, February and July through December and \$13.54 was used for March through June (includes the temporary rate increase of \$0.06). Audit inquired about the application of the temporary rate increase in June when the rate expense recovery tracking provide by CSC indicated that it had been terminated in May 2011. During discussions with the Company it was discovered that the invoices that Audit had been provided for this particular account were not what were actually mailed to the customer. For this particular account the Company prepares a separate manual statement of the account which is what is mailed. A copy of the manual statement was provided that reflected the correct rate of \$13.48 (does not include the temporary rate) was used in June which Audit was able to tie back to the general ledger.

#### Payroll and Employee Benefits

##### Wages & Salaries Account# 6-5100

All base hourly, base salary, overtime, sick pay, vacation, on call and insurance opt-out are initially booked to general ledger account #6-5100 throughout the month, then at month end the payroll is redistributed to the following annual report accounts:

1701	6-5701	Superintendence Plant 11%	99,935
1702	6-5702	Boiler Labor 55%	466,364
1725	6-5725	Plant Equip Maint Labor 9%	83,279
1756	6-5756	Superintendence Dist 6%	58,295
1761	6-5761	O&M Distrib Lines 3%	41,640
1762.1	6-5762	Meter Operating 6%	58,295
1780	6-5780	Meter Reading collection 2%	24,984
1800	6-6680	Special Payroll retired (B Webber)	19,651
			<hr/>
			852,444
	1-2520	Underground Mains	3,350
	1-2515	Plant Equipment	5,600
			<hr/>
			861,394

General ledger account #6-5100 started the year with a zero balance, incurred debits of \$861,494 and credits of \$861,494 resulting in a zero net activity and ending balance. Expense account balances above reflect all debit activity, excluding the year end accrual. The following reflected a second re-allocation from expense to fixed asset account:

Superintendence Plant 11% Account #6-5701

Account #6-5701 included a credit transfer of \$2,423 to fixed asset account #1-2515, Plant Equipment.

Boiler Labor 55% Account #6-5702

Account #6-5702 included a credit transfer of \$12,164 to fixed asset account #1-2515, Plant Equipment.

Plant Equip Maint Labor 9% Account #6-5725

Account #6-5725 included a credit transfer of \$2,008 to fixed asset account #1-2515, Plant Equipment.

Superintendence Dist 6% Account #6-5756

Account #6-5756 included three credit transfers totaling \$13,740 to fixed asset account #1-2520, Underground Mains.

O&M Distrib Lines 3% Account #6-5761

Account# 6-5761 included three credit transfers totaling \$7,862 to fixed asset account #1-2520, Underground Mains.

Special Payroll/Retired Account # 6-6680 -\$31,651

The 2011 payroll included regular monthly payroll totaling \$1,000 for two retired employees for \$250 and \$750 respectively and one payment to a newly retired employee in the amount of \$19,651. The Company and the employee agreed to two annual payments of the amount noted, rather than a pension type retirement for which the other two receive monthly payments. The one annual payment of \$19,651 was offset with the allocation from account #6-5100 Wages & Salaries.

Customer Billing 3% Account #6-5781

Account #6-5781 included a debit of \$15,750 from account # 6-5799, Contracted Administrative Services.

General Office Labor Account #6-5791

Account #6-5791 included a debit of \$26,250 offset from account #6-5799, Contracted Administrative Services.

Contracted Administrative Services Account #6-5799

Account #6-5799 reflected monthly debits of \$3,500 for administrative and bookkeeping services which totaled \$42,000. A credit entry of \$42,000 was also posted to transfer the expense to labor account #6-5781 and account #6-5791. Refer to the Affiliated Contracts portion of this report for further detail.

Payroll Test

Payroll is paid through the regular checking account. Audit verified that the W-3 tied back to the YTD payroll registers.

Audit reviewed the time cards and payroll register for the payroll week ending December 28, 2011 which revealed the following:

- Fourteen paychecks were issued.
- The time cards for ten hourly employees were compared to the payroll registers with no exceptions noted.
- No time cards were kept for the four salaried employees.
- Since this was the final payroll of the year, the remaining sick time balances not used during the year were also paid out, of the fourteen paychecks issued, nine included a sick time pay out.
- Time up to 40 hours was paid at regular time and time over 40 hours was paid at time and one-half.
- Three hourly employees received the on call stipend.
- Three employees received the insurance opt-out benefit.
- Two employees had special deductions withheld for rent.
- Eight employees participated in the retirement benefit in one form or another.
- Audit verified for this payroll all SEP/IRA deductions withheld were matched by CSC up to three percent.
- Audit selected two hourly employees that had deductions withheld for the various benefits and verified that those employees were included on the vendor invoices as having coverage.

## Employee Benefits

Concord Steam offers the following benefits to its employees (new employees at the end of the probationary period of 90 days):

- Medical insurance through Harvard Pilgrim is offered to employees, with the Company paying 87.75% of the premium and the employee paying 12.25% for all plan sizes.
- Dental insurance is also available through Principal Financial Group, with the Company paying 87.75% of the premium and the employee paying 12.25%
- Life and Disability insurance is also offered through Sun Life, short-term, dependent life and AD&D is paid 100% by the Company. Long-term disability insurance, and Aflac, both pre-tax and after-tax, are benefits paid 100% by the employees who choose to enroll.
- A retirement plan is offered to employees. Fidelity Investments is the plan administrator of the SEP/IRA. For those employees who enroll in the retirement program (SEP/IRA), the Company will match up to 3% of the employees' contributions.
- \*Vacation one week (40 hours) of vacation time is granted after the first year (accrues during the year but not available until the end of the year) and two weeks (80 hours) for years two through nine and increases to three weeks (120 hours) after the 10<sup>th</sup> year for all hourly employees. Vacation cannot be carried over to the next year, it must be used or it will be lost (unless because of CSC's needs then a special arrangement may be made). There is no formal program regarding salaried employees.
- While the payroll system calculates the vacation accruals on an annual basis CSC prepares a separate calculation to accrue it based on the employees' anniversary date.
- Sick time- three sick days are granted each year (24 hours) for all hourly employees, the sick time cannot be carried forward to the next year. Any remaining balance is paid out at the end of each year.
- An on-call stipend of \$80 per week is offered to employees required to be available for coverage if necessary in addition to their regular pay for the time worked.
- A health insurance opt out of \$47 per week is offered to employees who are able to receive health insurance coverage through other means.

\*CSC regarding vacation and sick time for salaried employees indicated that there is no formal program regarding salaried employees. "[T]hat said, our current salaried employees are long term employees, and currently get 48 hours of sick time, and 160 hours of vacation time. This does not apply to principals- they have discretion regarding time off."

SEP/IRA Deposits Account #2-3050 and Employer SEP/IRA Account #6-5201

Account #2-3050 incurred debits of \$27,505 consisting of four payments to Fidelity Investments South and weekly credits totaling \$27,492, which resulted in net activity and an ending debit balance of \$13. The \$27,492 ties to the \$14,632 of SEP/IRA withheld from employee paychecks and the employer match of \$12,860 reflected on the YTD payroll registers.

Account #6-5201 incurred weekly debits that totaled \$12,860 which ties to the employer expense for matching the SEP/IRA withheld from employee paychecks up to 3%.

AFLAC pre-tax Account #2-3055 and AFLAC After tax Account #2-3056

Account #2-3055 incurred debits that totaled \$5,721 and weekly credits that totaled \$6,134 which resulted in net activity and an ending balance of \$413. The \$6,134 of credits ties to the YTD payroll register reflecting "AFLAC Med/Acc." deducted from employee paychecks.

Account #2-3056 incurred debits totaling \$3,340 and weekly credits totaling \$3,290 which resulted in net activity and an ending balance of \$50.

Accr. Med & Dental Account #2-3014 – Balance Sheet Liability Account and Employee Med, Dental etc. Inc. Expense Account #6-6585

Account #2-3014 reflected debits that totaled \$17,499, and weekly credits that totaled \$16,501, which resulted in net activity and an ending balance of \$998. The \$16,501 of credits ties to the YTD payroll reports.

Account #6-6585 incurred debits that totaled \$144,210, credits that totaled \$15,333 (including 12 entries entitled "purchase; Bloomfield Associates" for \$1,043.07 each and an adjusting entry "AJE #2 Prepaid Employee Insurance" for \$755.63) which resulted in net activity and an ending balance of \$128,877.

Accrued Empl. Other Ded. Account #2-3011- Balance Sheet Liability Account

Account #2-3011 started the year with a credit balance of \$114, incurred debits that totaled \$39,058 (including regular monthly entries to Mesiti Real Estate totaling \$29,160) and credits that totaled \$35,378 which resulted in net activity of \$3,679 and an ending balance of \$3,565.

The \$35,378 of credits ties to within \$36 of the One-Time Deduction \$6,127 and Rent –of \$29,215 reflected on the YTD payroll reports that totaled \$35,342.

Expenses

Audit verified the entire expense portion of the general ledger, as compiled by the external accountant, to the PUC annual report. The PUC annual report was then reviewed for accuracy with the filing schedule 1. The Cost of Energy (COE) reference indicates that those revenue and expense accounts are reviewed in detail during the annual cost of energy review. The COE period is November through October.

PUC account #1507

#6-6140 Property Tax City	\$ 96,831	see Tax portion of report
#6-6141 State Utility Property Tax	\$ 24,109	see Tax portion of report
#6-9600 Property Tax Yard –Cost of Energy	\$ 24,168	see COE and Tax
#6-7050 Deferred Federal Income Tax	<u>\$ (42,868)</u>	<b>Filing \$ (42,868)</b>
Total TAX per PUC annual report account #1507	\$ 102,241	<b>Filing \$ 78,072</b>

The account #6-9600, Property Tax Yard is properly only reflected in the Cost of Energy in the filing. (Refer to the total \$2,199,323)

Account #6-6140 is overstated by \$113 due to inclusion of interest. Thus the account total should be \$96,718 and the **Filing Adjusted Figure should be \$77,959** down from the noted \$78,072.

PUC account #1508

#5-6000 NH Hospital Rent	\$ 101,912	
#5-8005 Yard Rent-Cost of Energy	<u>\$ 141,792</u>	
Total RENT per PUC annual report account #1508	\$ 243,704	<b>Filing \$ 243,704</b>

Account #5-8005 is reflected as Rent in the Filing and is also included in the total reported Cost of Energy in the filing, *overstating the filing by \$141,792*. In addition, account #5-6000 *includes \$1,396 related to 2010 rent, thus overstating that account*. The overall **Filing Adjusted Figure should be \$100,516**

PUC accounts #1504 and #1531

#6-6135 Amortization of Financing Costs #1531	\$ 2,793	<b>Filing \$ 2,793</b>
#6-6136 Amortization CIAC #1504	<u>\$ (9,668)</u>	
Net Amortization reflected incorrectly in the filing	\$ (6,875)	<b>Filing \$ (6,875)</b>

The filing includes the subtotal (\$6,875) as well as the Amortization of Financing costs, thus *overstating the filing expense total by \$2,793*. **The Filing Adjusted Figures should be \$2,793 as accurately reported below the line and (\$9,668) Amortization above the line.**

PUC account #1538

#6-6170 Contributions	\$ 15,763	<b>Filing \$15,763</b>
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### Total Production Summary

#### PUC account #1701

#6-5701 Superintendence Plant \$ 107,666

#### PUC account #1702

#6-5702 Boiler Labor \$ 500,940 RJE GL=\$455,175

The total on the PUC annual report for account #1702 includes an adjusting entry "RJE #13", noted on the external accountant's compilation, but not reflected on the general ledger. Other segments of the annual report reflect offsetting entries. The net impact is zero, but the annual report does not reflect the actual general ledger for the accounts for which the reference is noted.

#### PUC account #1711

#5-6006 Diesel Fuel	\$ 1,702 invoices reviewed
#5-6010 #6 Fuel – Cost of Energy	\$ 127,417 COE
#5-6013 Whole Tree Chips – Cost of Energy	\$1,034,134 COE, invoices reviewed
#5-6015 Wood Procurement – Cost of Energy	\$ 35,000 COE
#5-6017 Main Gas – Cost of Energy	\$ 732,960 COE, invoices reviewed
#5-6018 Pilot Gas	\$ 734
#5-8006 Loader Fuel – Cost of Energy	\$ 7,711 COE, invoices reviewed
#5-8060 Contracts Hauling – Cost of Energy	\$ 19,550 COE, invoices reviewed
#5-8085 Loader Rental – Cost of Energy	<u>\$ 51,912</u> COE, invoice reviewed
Total Fuel per PUC annual report account #1711	\$2,011,120

Reference to COE indicates that the account is included in the Cost of Energy figure on the filing (refer to the \$2,199,323) and to the summary of the Cost of Energy accounts at the end of this report.

\$315 noted in the Loader Rental account #5-8085 should be reflected in account #5-8051. The change does not impact the overall calculated cost of energy.

#### PUC account #1722

#5-6020 Ash Disposal	\$ 22,808 invoices reviewed
#5-6025 Water/Sewer	\$ 212,519 invoices reviewed
#5-6026 Calibration Gases-CEM	\$ 457
#5-6031 Treatment Chemicals-partial COE	\$ 5,091 split for COE \$2,847
#5-6032 Reagents	\$ 13
#5-6035 Salt Boiler	\$ 31,561 allocation reviewed
#5-6036 Fuel Additives	\$ 151
#5-6040 Lubricants	\$ 1,181 invoice reviewed
#5-6045 Gases-Welding	\$ 9,170 invoice reviewed
#5-6051 Mechanical	\$ 5,787 invoices reviewed
#5-6052 Pipe Fittings	\$ 3,803 invoice reviewed

#5-6053 Valves, Gaskets, etc.	\$	1,794	
#5-6055 Miscellaneous Small Tools	\$	4,528	invoice reviewed
#5-6060 Consumables Electrical	\$	1,582	
#5-6065 Consumables Buildings/Structures	\$	960	
#5-6070 Miscellaneous Production Supplies	\$	691	
#5-6075 Electricity Purchased	\$	87,293	all invoices reviewed
#5-7051 Mechanical Turbine	\$	99	
#5-7060 Consumables Turbines	\$	183	
#5-7065 Consumables Building	\$	53	
#5-8010 Utilities-Cost of Energy	\$	3,453	invoices reviewed
#5-8015 Heat Yard-Cost of Energy	\$	4,789	
#5-8055 Small Tools Yard-Cost of Energy	\$	<u>911</u>	
Total PUC account #1722	\$	398,875	

All of the Concord Water/Sewer invoices in account #5-6025 were reviewed. Late fees assessed on four invoices were not reflected in this account. They were properly included in account #6-2300.

One Unutil invoice in account #5-6075 should be reflected in the Cost of Energy Utility account #5-8010 in the amount of \$160. The reclassification does not change the total PUC account #1722.

PUC account #1725

#5-6085 Rental Fees/Plant Maintenance	\$	1,536	invoices reviewed (\$677)
#5-6095 Repair Parts Mechanical Plant	\$	24,112	invoices reviewed
#5-6100 Repair Parts Electrical	\$	3,318	invoice reviewed
#5-6107 Insulation	\$	3,137	invoices reviewed
#5-6108 Road Materials	\$	1,310	
#5-6109 Valves	\$	3,978	invoice reviewed
#5-6110 Contracts Maintenance/Repair Plant	\$	45,339	invoices reviewed
#5-6114 Contracts Main Repairs Road	\$	5,035	invoice reviewed
#5-6115 Contracts Maintenance/Repair Distribtn	\$	90	
#5-6116 CEM System	\$	10,893	invoices reviewed
#5-6117 Instrumentation/Electrical	\$	6,912	invoice reviewed
#5-7055 Miscellaneous Small Tools-Turbines	\$	3	
#5-7095 Repair Parts Mechanical – Turbines	\$	820	
#5-7100 Repair Parts Electrical Turbines	\$	1,580	
#5-7110 Contracts Maintenance/Repair Turbines	\$	5,010	invoices reviewed
#5-8051 Mechanical Repairs Yard-Cost of Energy	\$	926	COE, invoices reviewed
#6-2100 Discounts Taken	\$	(564)	
#6-2200 Freight Paid	\$	-0-	
#6-5725 Plant Equipment Maintenance Labor	\$	89,759	*RJE GL=81,559
#6-6625 Truck Loader Maintenance	\$	6,266	
#6-9200 Truck Loader Expense-Cost of Energy	\$	<u>5,481</u>	COE
Total PUC account #1725	\$	214,943	Filing-see Production

Account #5-6085 includes \$677 one time rental fee for a crane to lift the belt rollers at the plant wood system. The expense should be considered non-recurring.

The total on the PUC annual report for account #1725 includes an adjusting entry "RJE #13", noted on the external accountant's compilation, but not reflected on the general ledger. Other segments of the annual report reflect offsetting entries. The net impact is zero, but the annual report does not reflect the actual general ledger for the accounts for which the reference is noted.

Reference to COE indicates that the account is included in the Fuel total on the Cost of energy line of the filing schedule 1. Refer to the Cost of Energy summary page that follows.

Total <u>Production Expense, per the Annual Report</u> is the sum of the following subtotals:	
PUC account #1701	\$ 107,666
PUC account #1702	\$ 500,940
PUC account #1711	\$2,011,120
PUC account #1722	\$ 398,875
PUC account #1725	<u>\$ 214,943 less adjustment \$677</u>
Total Production <u>per Annual Report</u>	\$3,233,544 =adjusted \$3,232,867

The filing summarizes the Cost of Energy and Other Production Expenses:

Cost of Energy-	\$2,199,323
Other	<u>\$1,200,181</u>
Total Production <u>per filing</u>	\$3,399,504

Filing exceeds Annual Report: \$ 165,960

Known variances:	
#5-8005 Yard Rent in Production <u>and</u> Rent	\$ 141,792 See PUC #1508
#6-9600 Property Tax Yard included in COE	<u>\$ 24,168</u> See PUC #1507
Unknown variance	\$ -0-

**Distribution Expense Summary**

PUC account #1756  
#6-5756 Superintendence Distribution \$ 49,303 \*RJE GL=\$44,799

PUC account #1761  
#6-5761 O&M Distribution Lines \$ 37,561 \*RJE GL=\$34,129

PUC account #1762.1

#6-5762 Meter Operating Labor \$ 64,424 \*RJE GL=\$58,539

PUC account #1762.2

#5-6120 Customer Parts Supplies \$ 362,049 pro-forma noted

A significant portion of the amount noted in this account represents the installation of new piping at the Christa McAuliffe School, the Abbot Downing School, and a snow melt system installed at the Smile building. Each entity offset the cost of the installation. The Company identified \$325,672 in the filing as a pro-forma adjustment reducing this expense account. Refer to the Revenue section of this report for discussion and related offsetting revenue pro-forma. Audit reminds the Company that plant placed in service should be booked to the appropriate plant account, and when contributions are received to pay for or offset some portion of the cost, that funding should be accounted in the Contributions in Aid of Construction account. Because the Company and customers agreed to install the assets at these locations, using the customers' funds, the Company may not recover any depreciation expenses, or related maintenance expenses in the future, for assets they do not own

PUC account #1765

#5-6080 Maintenance of Structures	\$ 44	
#5-6090 Rental Fees Distribution	\$ 519	
#5-6105 Repair Parts Distribution	\$ 4,074	invoice reviewed
#5-6106 Pipe	\$ 4,802	invoice reviewed
Subtotal Maintenance of Structures #1765	<u>\$ 9,438</u>	

**Total Distribution Expenses per Annual Report \$ 522,775 Filing \$522,775**

**Customer Accounting and Collecting Summary**

PUC account #1780

#6-5780 Meter Reading/Collection labor	\$ 27,698	*RJE GL= \$25,167
#6-5781 Customer Billing Labor	\$ 15,334	
Subtotal PUC #1780	\$ 43,031	<b>Filing \$43,031</b>

PUC account #1783

#6-6175 Uncollectable Steam Sales	\$ 17,790	
#6-6180 Uncollectable Service Sales	\$ 235	
	\$ 18,025	<b>Filing \$18,025</b>
<b>Total Customers' Acctng /Clletng Annual Rpt</b>	<b>\$ 61,056</b>	

PUC account #1787

#6-6190 Marketing \$ 3,137 **Filing \$3,137**

### Administrative and General Summary

#### PUC account #1791

#6-5791 General Office Labor \$ 25,557

#### PUC account #1793

#6-5000 Postage	\$ 2,003	
#6-6510 Telephone	\$ 13,077	
#6-6523 Travel/Meals	\$ 541	
#6-6525 Travel Expenses	\$ 2,226	
#6-6535 Miscellaneous Office Expenses	\$ 5,950	
#6-9100 Miscellaneous Office Expenses	\$ 405	also in COE
Total PUC account #1793	\$ 24,202	

Reference to COE indicate that the account is included in the Fuel total on the Cost of energy line of the filing schedule 1, so is therefore included on the income statement twice.

#### PUC account #1794

#6-5799 Contracted Administrative Services	\$-	
#6-6545 Attorneys	\$ (38,026)	see note below
#6-6550 Accountants	\$ 21,012	invoices reviewed
#6-6555 Engineering Consultants	\$ 7,757	invoices reviewed
#6-6560 Management Fees	\$ 82,620	Bloomfield Associates
#6-6565 Other Consultants	\$ 26,321	see note
#6-8565 Other Consultants	\$ 7	
Total PUC account #1794	\$ 99,692	

Attorneys account #6-6545 is overstated by \$1,257 which should be included in the Cost of Energy. \$26,184 expensed relates to the 2011 Laidlaw suit which is unresolved. The expense should be deferred. Two credit entries of \$35,000 each reduced the overall expense by \$70,000. The funding resulted from withdrawing from the litigation involving the Cate Street contract with PSNH in Berlin. Cate Street agreed to pay legal costs if CSC withdrew from the suit. The credits will be non-recurring.

Other Consultants, #6-6565, includes \$21,000 expense associated with Power Advisory consulting services provided to the external attorney. Services were provided relating to the Cate Street litigation. This expense is thus non-recurring and should have been posted to a deferred account. Also included in this account is a debit relating to transcript services for the 2011 Cost of Energy. \$261 should therefore be removed from the account and posted to an account for the COE.

PUC account #1797

6-6171 State Fees	\$ 38,986	NH DES annual
6-6570 PUC Tax	\$ 15,788	-understated \$1,345
6-9240 State and Town Fees COE	\$ 180	also in COE
Total PUC account #1797	\$ 54,955	

Reference to COE indicate that the account is included in the Fuel total on the Cost of energy line of the filing schedule 1, so is therefore included on the income statement twice.

PUC account #1798

#6-5200 Employer FICA	\$ (13,708)	*RJE GL=\$66,446
#6-5202 SUTA	\$ 12,038	
#6-5203 FUTA	\$ 1,177	
#6-5204 SUTA Admin	\$ 493	
Sub-total flow through-see <u>Tax</u> portion	\$ -0-	RJE GL=\$80,153
#6-6576 Liability Auto Ins.	\$ 79,953	invoices reviewed
#6-6577 Workmens' Comp.	\$ 25,739	invoices reviewed
Total PUC #1798	\$ 105,691	

As outlined in the Tax portion of this report, the SUTA and FUTA calculations have been understated by a total of \$612.

PUC account #1800

#6-5201 SEP/IRA	\$ 12,860	
#6-6516 Employee Appreciation	\$ 6,748	Should be below the line
#6-6517 Training Education	\$ -0-	
#6-6518 Employee Med Testing	\$ 345	
#6-6585 Employee Med, Dent, etc.	\$ 128,877	
#6-6590 Uniforms	\$ 11,539	
#6-6680 Special Payroll Retired	\$ 31,651	
Total PUC #1800	\$ 192,021	

Employee Appreciation represents cash paid to employees. This expense should be borne by shareholders.

<u>PUC account #1801</u>		
#6-6172 City Fees	\$ 6,415	\$3,594 capitalize
#6-6173 Association Dues/Fees/Memb	\$ 1,243	
#6-6515 Employee Train/Recruiting	\$ 4,658	\$2,800 non-recurring
#6-6520 Leases/Rentals/Equipment	\$ 4,078	capital lease
#6-6600 Employee safety equip	\$ 12,526	
#6-6610 Federal Fines	\$ -0-	
#6-6615 Misc General Expenses	\$ 17,716	
#6-6710 Bank Charges	\$ 6,378	overnight sweep fees LoC
Total PUC #1801	\$ 53,014	

City Fees expense account #6-6172 should be reduced by \$3,594 which is more appropriately booked to a fixed asset account. The cost represented excavation permit fees associated with the three school projects discussed earlier. Refer to the discussion in PUC account #1762.2, CSC account #5-6120 regarding the appropriateness of expense vs. capital postings.

Regarding account #6-6515, the \$2,800 non-recurring expense represents 4 payments of \$700 made on behalf of an employee who had moved from Maine and was receiving a housing subsidy. The employee is no longer with the Company.

Account #6-6520 reflects capital lease payments for Motorola radios required by OSHA. CSC will own the radios at the end of the lease, and thus should have booked the original lease cost to plant with an offset to lease payable.

Account #6-6710 includes \$2,750 fees incurred relating to the TD Bank loan extension. The fees should have posted to the Deferred Financing Cost balance sheet account.

<u>PUC account #1802</u>	
#6-6530 Cleaning Supplies	\$ 4,263

<u>PUC account #1811</u>	
#6-6620 vehicle registrations	\$ 1,398
#6-6630 gasoline	\$ 19,261
#6-9205 tractor trailer fuel COE	\$ 7,528 also in COE
#6-9220 yard heat COE	\$ 955 also in COE
#6-9230 vehicle registrations COE	\$ 1,340 also in COE
#6-9560 highway use tax COE	\$ 550 also in COE
Total PUC #1811	\$ 31,031

References to COE indicate that the account is included in the Fuel total on the Cost of energy line of the filing schedule 1, so is therefore included on the income statement twice.

<b>Total Admin &amp; General per Annual Report</b>	<b>\$ 590,426</b>
PUC #1538, CSC #9-9560 Late Fees	\$ 358 Below the line
<b>Total Admin &amp; General per filing schedule 1</b>	<b>\$ 590,784</b>

The Filing administration and general total must be adjusted by the following:

PUC 1811	6-9205 tractor trailer fuel COE	\$ 7,528
PUC 1811	6-9220 yard heat COE	\$ 955
PUC 1811	6-9230 vehicle registrations COE	\$ 1,340
PUC 1811	6-9560 highway use tax COE	\$ 550
PUC 1801	6-6515 Employee Training	\$ 2,800
PUC 1801	6-6710 Bank Fees	\$ 2,750
PUC 1800	6-6516 Employee Appreciation	\$ 6,748
PUC 1798	6-5202 SUTA	\$ 459
PUC 1798	6-5203 FUTA	\$ 153
PUC 1797	6-9240 state and town fees COE	\$ 180
PUC 1797	6-6570 PUC Assmnt understated	\$ (1,345)
PUC 1794	6-6545 Attorneys	\$ (42,559) add
PUC 1794	6-6565 Other Consultants	\$ 21,261
PUC 1793	6-9100 Miscellaneous Office Exp	\$ 405
PUC 1538	9-9560 Late Fees	\$ 358 included in filing
A&G should be adjusted by:		\$ 1,583

**Filing Adjusted Figure for Administrative and General Expenses should be \$589,201.**

**Summary of Recommended Adjustments to the Filing**

Revenues

Account #4-5048 Sale of Electricity overstated	\$ (2,663)
Account #4-5102 Stack Rental understated by	\$ 6,120
Account #4-5115 Miscellaneous understated by	<u>\$ 6,922</u>
Net Revenue adjustment	\$ 10,379

Expenses

Distribution, \$522,775, includes a <u>non-recurring</u> expense of	\$ 677
Administrative and General, \$590,784, is <u>overstated</u> by	\$ 1,583
Property Taxes, \$120,940, is <u>overstated</u> by	\$ 113
Amortization (above the line) (\$6,875) is <u>understated</u>	\$ 2,793
Operating Rents is <u>overstated</u> by	<u>\$143,188</u>
Net over/under stated expenses (excluding non-recurring)	\$147,677

Balance Sheet Assets

Deferred Financing costs should be increased by	\$ 2,750
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Balance Sheet Liabilities

Accounts Payable should be reduced by	\$ 5,325
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**Cost of Energy Verification of Filing Data to the General Ledger**

Schedule 1, Attachment 5 of the filing reflects the cost of energy revenue for the calendar year 2011 of \$2,109,242. The filing agrees with the general ledger. The Cost of Energy for the calendar year 2011 crosses two cost of energy docket filings, as the COE runs from November through October each year. Specifically:

<u>Revenue</u> per DG 10-242 January through October			
	Revenue per COE Reconciliation	Revenue per General Ledger	
January 2011	\$ 424,428	\$ 424,428	
February 2011	\$ 427,973	\$ 427,973	
March 2011	\$ 297,998	\$ 297,903	\$95 variance
April 2011	\$ 162,462	\$ 162,462	
May 2011	\$ 74,554	\$ 73,699	\$855 variance
June 2011	\$ 25,405	\$ 25,405	
July 2011	\$ 17,322	\$ 17,322	
August 2011	\$ 19,964	\$ 19,964	
September 2011	\$ 22,118	\$ 22,116	
October 2011	\$ 129,291	\$ 129,291	
Revenue per DG 11-209 November and December			
November 2011	\$ 185,770	\$ 185,770	
December 2011	<u>\$ 322,907</u>	<u>\$ 322,907</u>	
Total COE 2011	\$2,110,194	\$2,109,243	

Audit verified the reported revenue to the following general ledger accounts:

#4-5028	Commercial Energy Income	\$ 765,187
#4-5029	Public Authority Energy Income	\$1,342,806
#4-5030	Residential Energy Income	<u>\$ 1,249</u>
Total COE revenue per General Ledger		\$2,109,243

The \$95 variance in February was due to an adjustment to billing account #409 and the May variance of \$855 was due to an adjustment to billing account #269. The general ledger reported revenue is accurate.

Audit verified that the following general ledger accounts comprise the cost of energy expenses. The balances at the end of the test year 12/31/2011 are listed below:

#5-6017 Main Gas-Gas	\$ 732,960
#5-6019 Gas Meter Charge-Gas	<u>-0-</u>
Total Gas – Cost of Energy	732,960 COE reports = \$732,068
#5-6010 #6 Fuel Oil-Oil	\$ 127,417
#5-6011 Waste Oil-Oil	-0-
#5-6031 Treatment Chemicals-Oil	<u>2,847</u>
Total Waste Oil & #6	130,264 COE reports = \$130,263

#5-6013 Whole Tree Chips-Wood	1,034,134	
#5-6014 Pile Wood-Wood	-0-	
#5-6015 Wood Procurement-Wood	35,000	
#5-8005 Wood Yard Rent-Wood	141,792	
#5-8006 Loader Fuel-Wood	7,711	
#5-8010 Utilities Yard-Wood	3,453	
#5-8015 Heat Yard-Wood	4,789	
#5-8051 Mechanical Repair-Wood	926	
#5-8055 Small Tools-Wood	911	
#5-8060 Contract Hauling-Wood	19,550	
#5-8085 Loader Rent-Wood	51,912	(\$315)
#6-9100 Miscellaneous Office-Wood	405	
#6-9205 Tractor Trailer Fuel	7,528	+\$315
#6-9200 Truck/Loader Expense-Wood	5,482	
#6-9220 Yard Heat-Wood	955	
#6-9230 Vehicle Registration-Wood	1,340	
#6-9240 State/Town Fees-Wood	180	
#6-9560 Highway Use Tax-Wood	550	
#6-9600 Property Tax Yard-Wood	<u>24,168</u>	overstated by \$106 interest
Total Wood – Cost of Energy	\$1,340,784	COE reports = \$1,336,965

TOTAL Cost of Energy Per GL      \$2,204,008 COE reports = \$2,199,296

Filing schedule 1 attachment 5 reflects total cost of energy for the calendar year 12/31/2011 \$2,199,323. Refer to the Cost of Energy dockets DG10-242 for the period November 2010 through October 2011 and DG 11-209 for the period November 2011 through October 2012. The general ledger accounts sum to \$2,204,008. The general ledger exceeds the cost of energy reconciliations by \$4,712. The Company acknowledged that the general ledger entries take place after the reports for the cost of energy are filed, and thus the reports may not reflect the general ledger detail. The Company was able to identify \$2,542 of the variance, leaving an unknown variance of \$2,170.

## **Audit Issue #1**

### **Adjusting Entry Posting Clarification of Amortization Accounts**

#### **Background**

The filing Income Statement Schedule #1 reflects both the year-end expense total of \$2,793 related to the Cost of Financing, as well as a net activity of the same general ledger account, (\$6,875).

#### **Issue**

Adjusting journal entry #10 credited the amortization expense account #6-6135 \$9,668.

Adjusting entry #10 should have posted to account #6-6136, Amortization – CIAC Received rather than account #6-6135, Amortization Expense.

The resulting amortization of costs of financing #6-6135 should be \$2,793  
The resulting amortization of CIAC #6-6136 should be (\$9,668)

#### **Recommendation**

Amortization of CIAC related assets should post to account #6-6136, rather than to the Amortization account used to write-down the cost of financing, #6-6135. The overall combined amortization expense total sums to (\$6,875)

An adjustment to the filing is recommended based on the reflection of the \$2,793 in two places within the Schedule 1.

#### **Company Comment**

*CSC has no disagreement with this and will adjust the posting.*

#### **Audit Comment**

Audit concurs with the Company comment.

## **Audit Issue #2**

### **Balance Sheet**

#### **Background**

Audit reviewed the activity and balance in all of the balance sheet accounts.

#### **Issue**

Audit was unable to adequately validate the following accounts and what comprised the balances within them:

#1-2030 Parts and Supplies \$78,350 unchanged from prior year  
#2-3027 Accrued Interest \$195 unchanged from prior year  
#2-3045 Miscellaneous Current Accruals

#### **Recommendation**

Clarification of what is on the balance sheet of the Company should be part of the ongoing review in the current docket process.

#### **Company Comment**

*CSC agrees and will provide materials in the future reflecting the above mentioned balance sheet accounts.*

#### **Audit Comment**

Audit concurs, and encourages the Company to maintain the balance sheet accounts to clearly identify what each represents.

## **Repeat Audit Issue #3**

### **Accrual Accounting**

#### **Background**

The PUC Chart of Accounts requires that utilities maintain the financial books using the accrual method of accounting, as opposed to the cash basis.

#### **Issue**

Audit noted the following instances of the use of the cash basis:

As discussed in the Long Term Debt section of this report, the Company does not accrue interest on debt, rather expenses it as it is paid.

Property tax payments to the city of Concord and the town of Pembroke were not properly booked on an accrual basis, nor was the PUC assessment.

#### **Recommendation**

In the prior audit report, it was recommended that the Company use the accrual accounting method of maintaining the financial records, to comply with the Commission's Chart of Accounts. The Company agreed to do so.

Audit reiterates the issue and recommendation.

#### **Company Comment**

*CSC agrees and will monitor end of year accruals to be in full compliance with the accrual method.*

#### **Audit Comment**

Audit concurs and reminds the Company to follow the accounting instructions outlined in the Uniform Classification of Accounts for Gas Utilities.

## **Audit Issue #4**

### **Customer Deposit**

#### **Background**

The Company has one deposit noted within account #2-4000, which is booked in November 2011.

#### **Issue**

The Company posted the deposit and offset the entry with a debit to Accounts Receivable account #1-1251. Audit was informed that the Company never received the deposit, and that was why they had not begun to accrue interest on the deposit.

#### **Recommendation**

Audit was subsequently informed that they do not expect to receive the deposit, and the account has been disconnected. Audit recommends that the posting be reversed, with a debit to account #2-4000 and a credit to #1-1251.

#### **Company Comment**

*CSC agrees and the change will be recorded in the 2012 Annual Report.*

#### **Audit Comment**

Audit understands the Company's response to also include adjusting the entries in their general ledger.

## **Audit Issue #5**

### **Internal Control Process**

#### **Background**

Special contract billings are a manual input process.

#### **Issue**

Due to the manual process, the temporary rate surcharge was overlooked when the billings for special contracts were created.

#### **Recommendation**

The Company is encouraged to ensure that all charges are included on all invoices as appropriate and authorized by the Commission.

#### **Company Comment**

*CSC agrees. The new billing calculation software no longer requires manual calculation for each special contract, so this should be less of an issue in the future.*

#### **Audit Comment**

Audit concurs with the Company comment.

## **Audit Issue #6**

### **Lack of Commission Approval**

#### **Background**

Concord Steam has a special contract with D McLeod, Inc.

#### **Issue**

The rates assessed under a special contract must be determined by the Commission to be in the public good.

Concord Steam did not request Commission approval to enter into the special contract.

#### **Recommendation**

The Company should prepare a petition to the Commission requesting permission to establish a special contract with this customer, and why it would be in the public interest to charge rates other than those set in the tariff.

#### **Company Comment**

*CSC agrees and will prepare a petition.*

#### **Audit Comment**

Audit concurs with the Company comment.

## **Audit Issue #7**

### **Special Contract Annual Changes**

#### **Background**

Concord Steam and the Concord School District have a Commission approved special contract.

#### **Issue**

Annual rate increases, per the contract, are based on the CPI-U Northeast-All Items index. The rate increase used in 2010 could not be validated.

The annual rate increase for 2011 was overlooked.

#### **Recommendation**

The Company must ensure that the terms of each special contract are followed.

#### **Company Comment**

*CSC agrees and will document increases in the future.*

#### **Audit Comment**

Audit agrees with the need to properly document the increases, but also reminds the Company that due to the rate increase for 2011 being overlooked, the Company's revenue was less than it should have been. The basis on which the 2012 annual increase was calculated was less than it should have been, and subsequent annual calculations will continue to be less than they would have been.

## **Audit Issue #8**

### **Lack of Compliance with Contract Terms**

#### **Background**

Concord Steam and the Concord YMCA have an approved special contract which runs concurrent with the Cost of Energy season (November through October).

#### **Issue**

Usage was not reset to zero beginning with the November 2011 invoice, thus the incorrect usage rate was charged. As a result, the account was overcharged for November and December of the test year, and after review by the Company, was overcharged for all of 2012.

#### **Recommendation**

The Company agreed with the incorrect rate assessment and must issue a credit to the customer.

#### **Company Comment**

*CSC agrees, and the credit has been issued.*

#### **Audit Comment**

Audit concurs with the Company comment.