

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: March 14, 2014

AT (OFFICE): NHPUC

FROM: Anthony Leone, Examiner

SUBJECT: Pennichuck East Utilities, Inc.
DW 13-126 Step Increase
Final Audit Report

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst
Karen Moran, Chief Auditor

ORIGINAL	
N.H.P.U.C. Case No.	DW 13-126
Exhibit No.	#6
Witness	L. Goodhue, D. Wape J. Laflamme
DO NOT REMOVE FROM FILE	

Scope of Plant Audit

The PUC Audit Staff (Audit) reviewed Pennichuck East Utility Inc. (PEU, Inc.) 2013 plant additions and improvements pursuant to the step increase request as outlined in DW 13-126 dated April 29, 2013. Audit reviewed selected work order projects with associated supporting invoices, documentation for internal engineering and overhead costs, general ledger trial balances, prior submitted documents from PEU, Inc. as well as all other applicable supporting documentation provided. The total of the work orders reviewed was \$361,215. This total corresponds to the revised filing of Staff 3-15, Schedule 3, Attachment A, exhibit 2 dated 3/4/14, by PEU, Inc. and to the totals for these work orders recorded on the general ledger. The total for all work orders submitted as part of the step increase was \$1,105,950. This total consists of the following improvements or additions:

	As Filed on Ex 2	As Filed NBV	General Ledger
Acct # 7304-100-001 - Source of Supply Structures	\$ 286,000	\$ 291,952	\$ 291,952
Acct # 7310-000-001 - Power Generation Equip.	\$ 156,050	\$ 155,861	\$ 155,861
Acct # 7311-200-001 - Pumping Equipment	\$ 42,008	\$ 42,008	\$ 42,008
Acct # 7320-200-001 - Water Treatment Equip.	\$ 130,428	\$ 125,000	\$ 125,000
Acct # 7330-000-001 - Distribution & Standpipes	\$ 98,000	\$ 98,000	\$ 98,000
Acct # 7331-000-001 - Mains & Gates	\$ 292,519	\$ 263,268	\$ 263,268
Acct # 7333-200-001 - Renewed Sevcies	\$ 29,133	\$ 26,220	\$ 26,220
Acct # 7334-000-001 - Metering Equipment	\$ 2,000	\$ 2,000	\$ 2,000
Acct # 7346-000-001 - Common Equipment	\$ 39,000	\$ 39,000	\$ 39,000
Projected and Actual Cost of Removal	\$ 30,812	\$ 62,641	\$ 62,641
	\$ 1,105,950	\$ 1,105,950	\$ 1,105,950

The filing of Staff 3-15, Schedule 3, Attachment A, exhibit 2 dated 3/4/14 matches the filing titled at Net Book Value (Filings) which also matches the amounts found on the General Ledger (GL).

When comparing the Filings, the most significant variance found was within the cost of removal where \$32,641 attributed to the Northern Shores and Locke Lake projects moved from GL accounts 7331 & 7333 to the “Projected and Actual cost of removal” total. Once this happened it replaced the estimated \$812 and supplemented the \$30,000 projected balance from other projects.

The most significant variance between the Filings and the amounts currently recorded on the GL is between the “7320- Water Treatment” and “7304-Source of supply Accounts”. This difference is discussed in detail as part of the Northern Shores review.

The totals of the Filings include all estimated costs for the Liberty Tree project as submitted. This project was still being completed at the end of 2013 and when asked was not completed until the middle of March 2014. Further details of this project are discussed as part of the Liberty Tree review.

The GL account # 7331-000-001, “Mains & Gates” includes all applicable sub accounts. No Exceptions were noted in this account.

Selected Plant Additions Review

Northern shores

According to the E-22 submitted by PEU, Inc. the purpose of this project was “to design and construct station improvements including structural modification to eliminate confined spaces, bring electrical system into code compliance, add disinfection and iron & manganese filtration, and install electrical equipment.”

The work order that was submitted for this project was # 1300854. This work order consisted of \$8,122 of expenses related to engineering costs, technical services costs, and the propane tank that would run the generator and facility in case of a power outage. There were no exceptions noted in the work order submitted.

PEU, Inc. submitted four documents pertaining to this work order: a revised copy of Staff 3-15, Schedule 3, Attachment A, exhibit 2 dated 3/4/14; a copy of the applicable step increase projects reported at Net Book Value (Filings); a copy of the work order and supporting documentation; and a copy of the GL trial balance for all impacted accounts pertaining to the step increase. The following table compares the totals and the applicable GL accounts:

General Ledger Account #	Filings	Current GL	Recommended
Acct # 7304-100-001 - Source of Supply Structures	\$ -	\$ 5,952.00	\$ 2,592.00
Acct # 7310-000-001 - Power Genera on Equip.	\$ 1,882.00	\$ 1,694.00	\$ 5,054.00
Acct # 7320-200-001 - Water Treatment Equip.	\$ 5,428.00	\$ -	\$ -
COR	\$ 812.00	\$ 476.00	\$ 476.00
	\$ 8,122.00	\$ 8,122.00	\$ 8,122.00

As is evidenced in the above table, the Filings do not match where the expenses were eventually recorded on the GL. After discussion with Charles Hoepper from PEU, Inc. it was determined that \$3,360 charged to “7304- Source of Supply Structures” should have been charged to “7310- Power Generation Equipment”. The recommended new posting for the work order has been included above. **Audit Issue #1.**

Locke Lake

According to the E-22 submitted by PEU, Inc. the purpose of this project was “Replacement of approximately 4500 feet of 4 inch and 2 inch diameter polyethylene pipe with 4 and 6 inch C-900 PVC and water services main to stop.”

The work order that was submitted for this project was # 1301994. This work order consisted of \$321,653 of expenses related to all aspects of the project and the new mains. As is typical for a project that does not differentiate the removal, the cost of removal has been estimated at 10% of the overall cost. In this case, the 10%, or \$32,165 was noted as being recorded to various “Mains & Gates” accounts as well as the “Renewed Services” account on the GL.

PEU, Inc. submitted four documents pertaining to this work order: a revised copy of Staff 3-15, Schedule 3, Attachment A, exhibit 2 dated 3/4/14; a copy of the applicable step increase projects reported at Net Book Value (Filings); a copy of the work order and supporting documentation; and a copy of the GL trial balance for all impacted accounts pertaining to the step increase. The following table compares the totals and the applicable GL accounts:

General Ledger Account #	Filings	General Ledger
Acct # 7331-100-001 - Mains 6" & Larger	\$ 78,264.76	\$ 78,264.76
Acct # 7331-101-001 - Mains 4" & Under	\$ 206,135.33	\$ 206,135.33
Acct # 7331-250-001 - Gates 4" & Under	\$ 3,680.55	\$ 3,680.55
Acct # 7331-251-001 - Gates 6" & Larger	\$ 4,439.13	\$ 4,439.13
Acct # 7333-200-001 - Renewed Sevices	\$ 29,133.07	\$ 29,133.07
	\$ 321,652.84	\$ 321,652.84

There were no exceptions noted for the Locke Lake work order #1301994.

Hardwood

According to the E-22 submitted by PEU, Inc. the purpose of this project was to “Install emergency generator. During a power outage our customers are without water and the systems depressurizes (sic).”

The work order that was submitted for this project was # 1301989. This work order consisted of \$31,440 of expenses related to all aspects of the project, with 100% of the costs being for the generator, installation of the generator and the associated propane tank to run the generator when power cuts off. There were no discounts noted on any of the associated invoices. There was no associated cost of removal for this project.

PEU, Inc. submitted four documents pertaining to this work order: a revised copy of Staff 3-15, Schedule 3, Attachment A, exhibit 2 dated 3/4/14, a copy of the applicable step increase projects reported at Net Book Value (Filings), a copy of the work order and supporting documentation, and a copy of the GL trial balance for all impacted accounts pertaining to the step increase. The following tables compare the totals and the applicable GL accounts:

General Ledger Account #	Filings	General Ledger
Acct # 7310-000-001 - Power Genera on Equip.	\$ 31,440.00	\$ 31,440.00

There were no exceptions noted for the Harwood work order # 1301989.

Liberty Tree

According to the E-22 submitted by PEU, Inc. the purpose of this project was “Replacement of approximately 4500 feet of 4 inch and 2 inch diameter polyethylene pipe with 4 and 6 inch C-900 PVC and water services main to stop...”

The total for the work orders that were submitted for this project were was \$622,008. The Liberty Tree project was originally started in 2011 and was not completed until mid-March 2014, and therefore the applicable expenses were not posted to the proper GL accounts at the time of writing this report. Audit was able to review the Construction Work In Progress (CWIP) account for 2013. In respect to the \$581,305.70 of expenses incurred for Liberty Tree in 2013, Audit was able to verify that 99% of them have been posted to the CWIP account for 2013.

Concerning the retirement of assets related to the Step Increase, PEU, Inc. indicated that “all the retirements for the step increase relate to Liberty Tree Project. Since the project was not complete in 2013, the retirements will not be recorded in the GL in 2013”. Audit was able to verify the retirement amounts filed to a tracking sheet used by PEU, Inc. but at this time the correct entries to the General Ledger are not available for review.

PEU, Inc. submitted multiple documents pertaining to this project: a revised copy of Staff 3-15, Schedule 3, Attachment A, exhibit 2 dated 3/4/14, a copy of the applicable

step increase projects reported at Net Book Value (Filings), and a copy of the work orders and supporting documentation, and a copy of the General Ledger trial balance showing Construction Work In Progress (CWIP) was submitted. The following table lists the assets at cost which are to be retired due to the Liberty Tree project.

General Ledgder Account #	Original Cost
7304-100-001	\$ 6,853.00
7304-200-001	\$ 44,855.00
7304-550-001	\$ 2,376.00
Sub-Total	\$ 54,084.00
7311-200-001	\$ 42,632.00
7311-210-001	\$ 1,580.00
Sub-Total	\$ 44,212.00
7330-000-001	\$ 38,985.00
Sub-Total	\$ 38,985.00
Grand Total	\$ 137,281.00

There were no exceptions noted for the Liberty Tree project.

Summary

Audit verified 100% of the selected work orders, associated photocopied documentation and applicable filings. In all but one file, and when available, the majority of expenses were verified to the appropriate general ledger accounts. The only recommendation is discussed in the Audit Issue on the next page. There are no other recommended adjustments.

AUDIT ISSUE #1

The expenses for the Northern Shores work order # 1300854 have been posted to the General Ledger incorrectly.

Background

Work order # 1300854 of the Northern Shores project consisted of \$1,881.81 of propane tank installation costs recorded as “7310- Power Generation Equipment” and two other invoices totaling \$6,240 for “Technical Services and coordination of Gen Set Installs for PWW and PEU” posted to the “7304-Source of Supply Structures” General Ledger account.

Issue

Upon subsequent review and discussion with PEU, Inc. it was found \$3,360 of the expenses posted to “7304-Source of Supply Structures” should have been posted to the “7310- Power Generation Equipment” account.

Recommendation

PEU, Inc. should verify the accuracy of the account to which the costs are recorded for the Northern shores project work order # 1300854 and make any necessary correcting entries.

Company Response

The Company agrees with the audit recommendation.

Audit Response

Audit concurs.