

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: February 1, 2021
AT (OFFICE): NHPUC

FROM: PUC Audit Staff

SUBJECT: Public Service Company of New Hampshire d/b/a Eversource Energy
DE 19-057 Step Adjustment
FINAL Audit Report

TO: Tom Frantz, Director NH PUC Electric Division
Rich Chagnon, Assistant Director NH PUC Electric Division
Jay Dudley, Analyst NH PUC Electric Division

Introduction

On October 9, 2020 Eversource filed a petition for a step adjustment, as contemplated by the Settlement Agreement filed on the same day in the DE 19-057 docket. The step was specifically summarized on Attachment LGL/DLP-1:

Step 1 - Calendar Year 2019			
<u>Line</u>	<u>Category Description</u>	<u>Plant Additions</u>	<u>Reference</u>
	Col. A	Col. B	Col. C
1	Specific Projects	\$ 74,851,135	Pages 2-3
2	Specific Carryover Projects	4,911,104	Pages 5-7
3	Annual Blanket Projects and Programs	45,441,214	Page 4
4	Total Plant Additions	<u>\$ 125,203,453</u>	

As noted on the Attachment, the above \$125,203,453 additions represent projects reported to have been placed in service in 2019, the year after the rate case test year of 2018. The additions were reported to exclude new business projects.

The Specific Projects were included within the attachment, and reflected 48 project types, each reportedly posted to specific plant in service accounts. Via Staff Data Request 17-001, eight Distribution projects were chosen for detailed review, representing 41% of the reported Specific Projects total.

Via Staff Data Request 17-001, sixteen of the eighty Distribution related Specific Carry-over projects were chosen for detailed review, representing 47% of the \$4,911,104.

Via Staff Data Request 17-001, three of the 43 Distribution and General related Annual Carry-over projects were chosen for detailed review, representing 11% of the total Annual Blanket Projects and Programs.

A hearing on the proposed Step was held December 1, 2020. The transcripts of that hearing demonstrate anticipated PUC Audit focus on:

1. (pages 32 through 34, page 74, pages 96 through 97) through that the Commission Electric Staff had questions related to the insurance billed to third parties and how the accounting for reimbursements took place. Reference was made to clarifying any open questions through the simultaneous (PUC) audit. The Company witness was asked by Company attorney “...*subject to the audit, what is the --- the amount that was included in the filing for this particular project is included in full in the step, is that correct?*” Witness answered “*Yes. So the \$1.7 million is included in full in this step.*” Attorney “*And subject to the audit?*” Witness “*Correct*”. Refer to Staff Data Request 17-001.
2. (pages 60 through 62) the transcript includes a lengthy discussion regarding what is considered major plant vs. minor plant. On page 62, the Company witness was asked “*And if, for example, there were some degree or disagreement by the Commission’s Audit Staff about treatment, for example, the LTC Controllers that are requested to recover in the step here, as to whether they are minor or major plants, is that something that the Company agrees would be reconcilable after the audit recommendations?*” Witness “*Yes*” Refer to Staff Data Request 18-008.
3. (pages 71 through 72) involves the capitalization of property taxes, allocated to open work orders for plant in the Construction Work in Progress account, reference to Staff Data Request 18-014(c), and the question to the Company Witness “*And if, for some reason, the Commission Audit Staff had some further recommendations relative to this issue, is it your understanding that that is something that would be subject to reconciliation after their audit?*” Witness “*Yes. Absolutely.*”

Regarding bullet #1, Insurance or Third Party Billing

As provided in response to Staff Data Request 17-001, the Project Authorization Form, dated 6/21/2019 included the Executive Summary : “*An approval of \$1,789,000 (before contributions) is requested for the 2019 Insurance Claim/Keep Costs program. The Insurance Claim/Keep Costs program includes overhead (INSOH9R), underground (INSUG9R) and direct buried (INSDB9R) costs associated with work associated with trouble call property damage that is eligible for reimbursement (9A billing), but cannot be billed out within the program year. Each area work center will have a separate project covering the insurance claim/keep costs projects in the individual work center.*” The form also includes **Technical Justification:**
Project Need Statement

This project provides funding for a reimbursable property damage that cannot be billed out within the program year.

Project Objectives

This project is intended to fund repairs to existing facilities requiring capital work as a result of actions caused by others.

Project Scope

This project addresses the portion of reimbursable property damage to Eversource's overhead, underground and direct buried assets that is not billed out in the program year. It includes all projects and work orders under the specific area work center project INSOH9x, INSUG9x, and INSDBx where x is the letter representing the area work center.

Background / Justification

This is a program that is funded each year to cover the costs associated with repairs to the Company's distribution system for which a reimbursement cannot be processed within the program year.

Audit requested specific accounting clarification of when, and to what exact general ledger accounts all of the information relating to the INSOH9x projects and related third party billings/customer contributions post. The Company directed the Audit staff to the response in Staff Data Request #17-001 and 18-007. Audit had reviewed that response, which was the reason for the direct and specific accounting question. To date, the Company has not responded sufficiently. **Audit Issue #1**

The Company included \$1,789,400 in the current 2019 Step adjustment. This figure does not account for the anticipated contributions of \$(1,189,200).

Audit, for comparison purposes, requested the Project Authorization Forms for the INSOH9x for the years 2015 through 2020, excluding 2019 which was already within the current docket discovery. The results are noted below:

Project Authorization Forms and Supplemental Requests for INSOH9x

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>Project Cost Summary</u>						
capital additions direct	\$ 701,000	\$ 128,800	\$ 695,600	\$ 669,000	\$ 688,100	\$ 688,000
less customer contribution	\$ (1,281,700)	\$ (12,800)	\$ (1,189,200)	\$ (1,080,000)	\$ (1,189,200)	\$ (1,189,000)
removals net of salvage	\$ 209,300	\$ 47,200	\$ 211,800	\$ 199,000	\$ 211,800	\$ 212,000
capital additions indirect	\$ 567,300	\$ 131,200	\$ 708,100	\$ 712,000	\$ 869,100	\$ 869,000
AFUDC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000
total Capital request	\$ 195,900	\$ 294,400	\$ 426,300	\$ 500,000	\$ 579,800	\$ 600,000
O&M	\$ -	\$ -	\$ (218,800)	\$ -	\$ 20,400	\$ -
Total Request	\$ 195,900	\$ 294,400	\$ 207,500	\$ 500,000	\$ 600,200	\$ 600,000
<u>Supplemental Request</u>						
capital additions direct	\$ 162,600	\$ 768,700		\$ 213,300		\$ 470,000
less customer contribution	\$ (338,300)	\$ (1,714,400)		\$ (1,269,600)		\$ (1,003,000)
removals net of salvage	\$ 40,900	\$ 153,800		\$ 77,300		\$ 130,000
capital additions indirect	\$ 301,400	\$ 864,400		\$ 595,000		\$ 775,000
AFUDC	\$ 3,300	\$ 3,200		\$ 2,000		\$ -
total Capital request	\$ 169,900	\$ 75,700	\$ -	\$ (382,000)	\$ -	\$ 372,000
O&M	\$ -	\$ -				
Total Request	\$ 169,900	\$ 75,700	\$ -	\$ (382,000)	\$ -	\$ 372,000
TOTAL	\$ 365,800	\$ 370,100	\$ 207,500	\$ 118,000	\$ 600,200	\$ 972,000

The inclusion by the Company of \$1,789,400 for 2019 overstated its own Project Cost Summary, which reflects a net expense of \$600,200. The summary above represents the presentation of all costs and contributions as noted in the Project Authorization Forms and any related Supplemental Request. In an attempt to understand from where the filing figure of \$1,789,400 was derived, Audit reformatted the Project Authorization Forms as:

Reformatted Project Authorization Forms and Supplemental Requests for INSOH9x

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>Project Cost Summary</u>						
capital additions direct	\$ 701,000	\$ 128,800	\$ 695,600	\$ 669,000	\$ 688,100	\$ 688,000
removals net of salvage	\$ 209,300	\$ 47,200	\$ 211,800	\$ 199,000	\$ 211,800	\$ 212,000
capital additions indirect	\$ 567,300	\$ 131,200	\$ 708,100	\$ 712,000	\$ 869,100	\$ 869,000
AFUDC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000
total Capital request	\$ 1,477,600	\$ 307,200	\$ 1,615,500	\$ 1,580,000	\$ 1,769,000	\$ 1,789,000
O&M	\$ -	\$ -	\$ (218,800)	\$ -	\$ 20,400	\$ -
Request Excluding Cust. Contribution	\$ 1,477,600	\$ 307,200	\$ 1,396,700	\$ 1,580,000	\$ 1,789,400	\$ 1,789,000
less customer contribution	\$ (1,281,700)	\$ (12,800)	\$ (1,189,200)	\$ (1,080,000)	\$ (1,189,200)	\$ (1,189,000)
TOTAL REQUEST	\$ 195,900	\$ 294,400	\$ 207,500	\$ 500,000	\$ 600,200	\$ 600,000
<u>Supplemental Request</u>						
capital additions direct	\$ 162,600	\$ 768,700		\$ 213,300		\$ 470,000
removals net of salvage	\$ 40,900	\$ 153,800		\$ 77,300		\$ 130,000
capital additions indirect	\$ 301,400	\$ 864,400		\$ 595,000		\$ 775,000
AFUDC	\$ 3,300	\$ 3,200		\$ 2,000		\$ -
total Capital request	\$ 508,200	\$ 1,790,100	\$ -	\$ 887,600	\$ -	\$ 1,375,000
O&M	\$ -	\$ -				
Request Excluding Cust. Contribution	\$ 508,200	\$ 1,790,100	\$ -	\$ 887,600	\$ -	\$ 1,375,000
less customer contribution	\$ (338,300)	\$ (1,714,400)		\$ (1,269,600)		\$ (1,003,000)
TOTAL REQUEST	\$ 169,900	\$ 75,700	\$ -	\$ (382,000)	\$ -	\$ 372,000
TOTAL Expenses excluding contrbbtn	\$ 1,985,800	\$ 2,097,300	\$ 1,396,700	\$ 2,467,600	\$ 1,789,400	\$ 3,164,000
Total Contributions	\$ (1,620,000)	\$ (1,727,200)	\$ (1,189,200)	\$ (2,349,600)	\$ (1,189,200)	\$ (2,192,000)
NET TOTAL	\$ 365,800	\$ 370,100	\$ 207,500	\$ 118,000	\$ 600,200	\$ 972,000

Based on the Project Authorization Forms and Supplemental Requests (none of which included authorized signatures), it appears that the filing is overstated by \$1,189,200. **Audit Issue #1**

Audit also requested clarification of the property insurance policy that, per the response to Data Request TS 4-001, covers Generation, Transmission, and Distribution. The clarification requested the timing of when the policies were updated to exclude Generation, since the Generating assets were sold in 2018, and also requested what the premium savings were. **Audit Issue #2**

Regarding bullet #2, Major vs. Minor plant

Staff questioned the inclusion of LTC Controls as “major plant” vs. “minor plant”. Staff Data Request 18-008 asked for “*the FERC justification for capitalizing LTC Controls as these assets are considered minor plant and typically are charged to the transformer major plant account at the time of installation, expensed if replaced without the transformer being replaced.*” The Company indicated that “[i]n accordance with the Company’s capitalization policy, LTC Controls are not considered “minor plant” ...It is the Company’s policy to recognize LTC Controls as Units of Property and capitalized separately due to the fact that the unit could stand alone and would be treated as other capitalized Relays.” The Staff followed up with a Technical Session request #4-003, since the initial response to Staff 18-008 did not address the actual FERC justification.

TS 4-003 asked the Company to “*provide the Company’s explanation of the treatment of LTC Controls as a major plant item.*” The Company responded: “*Please see Attachment TS 4-003 A for the Accounting memo dated March 13, 2012 discussing the issue of the capitalization of the installation and replacement of LTC Controls for transformers. This memo references an Eversource policy, APS-08. For reference, that policy is being provided in Attachment TS 4-003 B.*”

Audit reviewed both the FERC, Staff data request 18-014(c), and the TS 4-003 details. The Company’s March 2012 capitalizing LTC controls memo outlined the reasons for considering them as major plant rather than minor plant, as they had been booked previously. At the outset of that memo is a line that says “*These units could be used on any LTC interchangeably and can be easily replaced*”. Page 1 of 6 of policy attached as TS 4-003B includes “*Items that comprise a retirement unit or unit of property are called minor items of property.*”

Within the FERC instruction bullet #10 Additions and Retirements of Electric Plant, C (3) “*When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement affects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.*” FERC 10. A states “*For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property will be considered as consisting of (1) retirement unites and (2) minor items of property. Each utility shall maintain a written property units listing for use in accounting for additions and retirements of electric plant and apply the listing consistently.*” By changing the manner in which the LTC controls are booked, the Company is not applying the consideration of “retirement units” vs. “minor property” consistently. **Audit Issue #3**

Regarding bullet #3, Capitalizing Property Taxes

Audit concurs with the Company that the FERC Uniform System of Accounts allows for the capitalization of property taxes. Audit requested a specific example and exacting questions about how property taxes are allocated, if there is a reconciliation back to actual property tax invoices, and why anything other than labor would be within the Accounting work order 18NHVMES, PSNH 2018 VM capital labor charges. The request specifically was: Audit Request #13

“*Within your response to Staff 17-001, the zip file of carryover projects is C18ETT, Work Order Summary.xlsx. Within that Excel sheet is a tab called work order summary. Within accounting workorder 18NHVMES, PSNH 2018 VM capital labor charges, posting to 107010, CWIP, cost element A39, Property Taxes. On line 34 is a total credit derivation and on line 35 a miscellaneous credit adjustment. Debit activity on line 35 began in February 2018 and continued through October 2019 for a total of*

\$65,170.33. The only month in which there was activity on line 34 was November 2019, when a credit of \$(38,858.00) was noted. A third line in the accounting work order ET180UVL reflected a total of \$113,888.71 of property taxes posted to 107010, beginning in February 2018 and continuing monthly through November 2019. I understand and agree that FERC allows property taxes related to major projects to be capitalized while in progress.

1. Why would any charge other than labor and related benefits be part of a work order called capital labor charges?
2. The unvouchered liabilities were not reversed one for one. Are they part of an overall reversal?
3. On what basis were any of the property taxes calculated? There has to be a method by which the literal municipal and state property tax invoices can be verified to what has been included in the capital figure. I understand the high level concept of applying property taxes to open work orders, but need the specific details. What system knows in what town what work order should be allocated some portion of exact property taxes? Is there a reconciliation of some sort?"

The Response provided by Eversource was:

- "1. Towns require Eversource to declare CWIP on their annual filing with the town. The towns then assess a tax on the reported balance of CWIP. These taxes are then allocated to open CWIP Work Orders. FERC Accounting requirements are such that taxes specifically applicable to construction must be included in the costs of construction.*
- 2. Accounting work order 18NHVMES was charged property taxes through October, 2019. In November, 2019, it was identified that this work order should have been cleared out and closed at the end of 2018. Therefore, the 2019 property taxes should not have continued to be charged to this work order and the 2019 property taxes amount of \$38,858 was reversed.*
- 3. As mentioned above, PSNH is required to report any outstanding current CWIP in the towns in NH as part of their annual filing. The towns bill property taxes on the CWIP amounts and the taxes are allocated against the current open work orders based upon the actual filing values (multiplied by the town's actual mill rates). FERC Accounting requirements are such that taxes specifically applicable to construction must be included in the costs of construction."*

Audit requested a sample of a municipal annual filing. The Company provided a sample of the town of Amherst. However, Amherst is not one of the towns associated with this work order C18ETT. A follow-up request was sent, asking for a municipal filing that was within the specific work order C18ETT. A copy of the Claremont filing was provided, along with a question/qualification that *"I'm not sure if this is what you are looking for. The allocation of property taxes associated with CWIP is allocated over all open work orders with CWIP charges so there will not be a one-to-one relationship between what is included in the [Claremont municipal filing] and what is seen in the Claremont work order."*

Audit sent a final follow-up question, asking “*how the portion of any town (or all towns/state) property tax is determined, as far as what part is expensed and what part is assigned to belong in CWIP? Is the overall property tax charge calculated based on a percentage of how much plant is in service vs. in CWIP?*” On January 29, 2021, the Company responded:

“Because the investment amount for CWIP are current dollars, Eversource makes the assumption that the town is assessing the Company on the actual amount of reported CWIP. For example, if Eversource reports \$1,100 in total assets to the town, and \$100 of that is CWIP, that means that \$1,000 was an existing in-service investment. The Town then issues Eversource a bill for say \$2,300 in assessed value, with no identification, allocation or break-out. Eversource assumes that the Town identified the current in-service, depreciated assets and valued them at \$2,200 and assumes the value of the CWIP is still the reported \$100, because inflation and the time value of money, with no depreciation, hasn’t really changed the value of that CWIP investment. The CWIP is new or current dollars. CWIP for each town is multiplied by the town’s mill rate then divided by 12 to derive total property tax attributable to CWIP each month. The aggregated CWIP each month is then allocated to the open work orders with CWIP charges each month.”

Audit was not provided with any sort of town-by-town reconciliation of actual tax invoices vs. what was “allocated to all CWIP jobs”, vs. what was expensed. Audit is still unclear if the “allocate to all open CWIP jobs” means that all towns with any CWIP asset have the entirety of the municipalities, as calculated above, summed, then spread over every open CWIP job, or if the spread of specific municipal allocations are spread over only those CWIP jobs in the particular municipality.

The questions regarding Audit question 1, Capital labor, and question 2 regarding unvouchered liabilities (accruals) were answered in response to a draft version of this report. Refer to **Audit Issue #4**

General Ledger

Audit requested a summary general ledger, by month, demonstrating the plant additions. A total of \$121,904,401.27 was reported to be posted to FERC account 101010, Utility Plant in Service, and \$3,299,056.66 to account 106010, Completed not Classified. The additions related to New Business were reportedly not included within the requested Step increase. Specifically:

Month	FERC Account	Gross Plant Additions	New Business Additions	Additions, Net of New Business
Jan-19	101010	\$14,663,550.78	\$1,171,099.85	\$13,492,450.93
Jan-19	106010	(\$6,235,176.06)	\$206,391.78	(\$6,441,567.84)
Feb-19	101010	\$8,773,227.49	\$921,897.91	\$7,851,329.58
Feb-19	106010	\$15,036.54	(\$907.75)	\$15,944.29
Mar-19	101010	\$10,563,275.98	\$878,539.63	\$9,684,736.35
Mar-19	106010	(\$2,511,000.56)	(\$7,442.02)	(\$2,503,558.54)
Apr-19	101010	\$15,292,533.61	\$733,367.87	\$14,559,165.74
Apr-19	106010	(\$4,139,459.98)	(\$103,719.90)	(\$4,035,740.08)
May-19	101010	\$13,198,078.56	\$1,271,062.11	\$11,927,016.45
May-19	106010	\$5,611,873.01	(\$453,394.45)	\$6,065,267.46
Jun-19	101010	\$9,354,898.31	\$736,006.19	\$8,618,892.12
Jun-19	106010	\$2,436,820.40	\$546,386.84	\$1,890,433.56
Jul-19	101010	\$10,031,256.71	\$665,604.86	\$9,365,651.85
Jul-19	106010	\$6,465,094.32	\$73,299.15	\$6,391,795.17
Aug-19	101010	\$4,989,313.14	\$498,486.54	\$4,490,826.60
Aug-19	106010	\$1,283,046.74	\$148,344.53	\$1,134,702.21
Sep-19	101010	\$12,891,466.13	\$616,649.69	\$12,274,816.44
Sep-19	106010	\$2,645,056.17	\$307,756.99	\$2,337,299.18
Oct-19	101010	\$7,218,449.94	\$574,269.24	\$6,644,180.70
Oct-19	106010	\$1,812,846.90	\$350,388.65	\$1,462,458.25
Nov-19	101010	\$16,801,974.62	\$1,465,436.42	\$15,336,538.20
Nov-19	106010	(\$6,075,857.45)	(\$607,814.33)	(\$5,468,043.12)
Dec-19	101010	\$8,296,867.33	\$638,071.02	\$7,658,796.31
Dec-19	106010	\$3,730,034.53	\$1,279,968.41	\$2,450,066.12
Total 2019	101010	\$132,074,892.60	\$10,170,491.33	\$121,904,401.27
Total 2019	106010	\$5,038,314.56	\$1,739,257.90	\$3,299,056.66
Total 2019		\$137,113,207.16	\$11,909,749.23	\$125,203,457.93

The credits noted within account 106010 typically represent the transfer of assets out of the Completed not Classified account into the Unitized Plant in Service account 101010.

Audit requested clarification of any depreciation expense and related accumulated depreciation impact that may result from assets being held in account 106 rather than account 101. The Company responded: *“When assets are in 106, they do have a 3XX utility account assigned to them based on the work order estimate. This 3XX utility account is tied to a depreciation group and the depreciation group is the basis on which depreciation expense is calculated. If the 3XX account is updated when the assets are moved from 106 to 101 the depreciation group may also be updated and any depreciation expense change would be recorded prospectively.”*

Audit requested the authorizations associated with the assets in account 106 in the Specific Carryover Projects. More specifically, Audit reviewed all of the assets noted within the Continuing Property Record. The CPR detail (which contains a total of 36,189

records) was not rolled into the types of projects noted above, but summarized by individual FERC account, and by posting to either the Unitized Plant in Service account 101, or the Completed not Classified account 106, as follows:

GL	Description	Account 101	Account 106	Sum of FERC Account Total	# of records per CPR	
					# in 101	# in 106
303930	Miscellaneous Intangible Plant	\$ -	\$ 160,112.06	\$ 160,112.06	1	0
	Intangible Total	\$ -	\$ 160,112.06	\$ 160,112.06		
360010	Land in Fee	\$ -	\$ -	\$ -	1	0
361890	Distribution Structures and Improvements	\$ 487,376.70	\$ -	\$ 487,376.70	10	6
362100	Distribution Station Equipment	\$ 21,578.77	\$ (1,952,548.72)		3	27
362230	SCADA Equipment	\$ 65,762.58	\$ 21,794.82		2	1
362890	Distribution Station Equipment	\$ 6,303,449.88	\$ 20,243,840.19	\$ 24,703,877.52	45	170
364310	Poles and Appurtenance	\$ 20,902,539.14	\$ (2,373,021.45)		4,054	6,555
364800	Poles, Towers, Fixtures	\$ -	\$ 2,284,779.07	\$ 20,814,296.76	0	23
365000	Overhead Conductors, Devices	\$ 64,510,921.88	\$ (15,123,295.53)	\$ 49,387,626.35	5,813	9,210
366700	DB/UG Conduits and Vaults	\$ 4,501,030.78	\$ (1,542,770.90)	\$ 2,958,259.88	443	894
367720	DB/UG Conductors and Devices	\$ 5,445,559.12	\$ (1,376,024.62)	\$ 4,069,534.50	301	628
368330	Equipment Overhead	\$ 5,087,749.11	\$ 22,589.65		44	117
368350	Installations-Overhead	\$ 2,197,222.63	\$ (11,135.09)		17	47
368730	DB/UG Equipment	\$ 3,731,562.77	\$ -		1	2
368750	DB/UG Installations	\$ 678,234.35	\$ (139,759.14)	\$ 11,566,464.28	31	66
369320	Conductors and Devices-Overhead	\$ 1,280,575.82	\$ (5,952.64)		1,388	2,979
369720	DB/UG Conductors and Devices	\$ 1,138,946.80	\$ 59,879.46	\$ 2,473,449.44	363	848
370450	Meters-Equipment	\$ 736,817.95	\$ 2,847,267.85		3	8
370460	Meters-Installations	\$ 253,366.00	\$ (219,070.22)		2	3
370470	Meters-Devices	\$ 519.10	\$ 85.79	\$ 3,618,986.47	1	4
371400	Inst. Cust. Area Lighting	\$ 303,121.57	\$ (28,250.50)		349	714
371430	Ins. Cust. Equipment in Station	\$ -	\$ 403.52	\$ 275,274.59	1	0
373320	SL-Conductors & Device OH	\$ 1,577.66	\$ 1,391.18		3	15
373380	SL- Poles - Overhead	\$ -	\$ (654.16)		0	4
373390	SL- Fixtures - Overhead	\$ 45,307.12	\$ (12,847.80)		124	273
373700	DB/UG Conduits and Vaults	\$ 2,619.35	\$ (89.21)		4	13
373720	DB/UG Conductors and devices	\$ (2,007.98)	\$ (5,471.95)		7	21
373780	DB/UG Poles	\$ 11,629.92	\$ 3,816.54		7	15
373790	DB/UG Fixtures	\$ (1,727.09)	\$ 7,002.77	\$ 50,546.35	11	26
	DISTRIBUTION TOTAL	\$ 117,703,733.93	\$ 2,701,958.91	\$ 120,405,692.84		

390890	Structures-Other	\$	63,330.14	\$	2,156,933.87	\$	2,220,264.01	2	110
391440	Office Furniture-Personal Computers	\$	-	\$	892,605.69			0	1
391820	Office Furniture-Other Customer Service	\$	-	\$	-				
391890	Office Furniture-Other	\$	5,974.54	\$	79,850.11	\$	978,430.34	1	12
392100	Dist Class 1 Car	\$	111,704.86	\$	(80,614.65)			4	6
392110	Dist Class 2 Light Truck	\$	649,486.58	\$	(88,375.14)			6	9
392120	Dist Class 3 Medium Truck	\$	67,487.88	\$	-			3	2
392130	Dist Class 4 Heavy Truck	\$	2,925,917.77	\$	(2,560,240.93)			5	8
392140	Dist Class 5 Rolling Equipment	\$	-	\$	(66,865.39)			0	1
392150	Dist Class 6 Trailers	\$	206,413.11	\$	(203,181.53)	\$	961,732.56	3	4
393000	Stores Equipment	\$	5,018.97	\$	174,422.18	\$	179,441.15	8	33
394000	Tools-Tools and Work Equipment	\$	-	\$	54,965.23			0	6
394710	Tools-Tools and Work Equipment	\$	37,280.93	\$	470,995.91	\$	563,242.07	21	204
396000	Power Operated Equipment	\$	-	\$	(812.98)	\$	(812.98)	0	1
397740	Communication Equipment-Microwave/FO	\$	45,235.81	\$	-			1	0
397820	Communication Equip-Other Cust. Service	\$	-	\$	-			0	0
397890	Communication Equipment-Other	\$	81,231.95	\$	(364,242.89)	\$	(237,775.13)	1	34
398000	Miscellaneous Equipment	\$	-	\$	(28,572.26)			0	3
398890	Miscellaneous Equipment General	\$	-	\$	1,703.27	\$	(26,868.99)	0	2
General Total		\$	4,199,082.54	\$	438,570.49	\$	4,637,653.03		
Grand Total		\$	121,902,816.47	\$	3,300,641.46	\$	125,203,457.93	13,084	23,105

Audit, on January 5, 2021, requested clarification of the current status of the unitization of all (step adjustment) assets reported in account 106 at the end of 2019. On January 29, 2021, the Company responded:

“The additions to 106 in 2019 totaled \$62.4M. Of the \$62.4M, \$24.6M has been unitized in 2020. Virtually all of the remaining \$37.8M of 2019 106 amounts have not yet been unitized as not all work management requirements have been met or not all outstanding project documentation has been prepared, completed and received by Plant Accounting. As part of the work order close process, Plant Accounting works with Operations, Investment Planning and Engineering to gather the information required to unitize these work orders. Depending on the size of the project, this information takes time to be prepared, gathered and communicated to Plant Accounting. Once received by Plant Accounting additional time is required as significant reviews and analyses occur. When all criteria are met, the work order will be closed.”

Audit understands that a business process audit will be conducted to determine the efficacy of the processes used by Eversource.

Audit also understands the above explanation is describing the unitization of all assets in account 106 at year-end 2019, not specifically the step adjustment assets listed above that sum to \$3,300,641.46. Therefore, Audit cannot conclude that any of the \$3,300,641.46 have been unitized timely or to the proper Plant in Service account. **Audit Issue #5**

Within Project NT006, and described in response to TS 4-002, the Company noted that *“as a result of this data request, and upon further review of the specific assets, Plant Accounting has worked with the Engineering and Project Management teams and has determined that these assets are in fact Transmission and not Distribution assets and therefore should not have been transferred from Transmission to Distribution. As a result, \$276,837.47 will be removed from the 2019 Plant in Service step adjustment request.”*

Audit requested the actual journal entry that moved the \$276,837.47, noted in the data response above, and further detailed as the sum of:

Work Order T1340ASM	\$165,980.47
Work Order T1188A2	\$105,508.74
Work Order TL9R7084	<u>\$ 5,348.26</u>
	\$276,837.47

The Company provided a 12/31/2019 journal entry demonstrating debits into the Distribution segment 06, account 101010, and crediting the Transmission segment 6T, account 101010. Audit asked for clarification of what appeared to be a backward journal entry. The Company responded: *“The reversal of the \$276,837.47 was completed in January 2021 and was not available at the time of the original request. Please see Audit Request 12 D to T Transfer - CPR.pdf containing a detailed CPR transfer report showing the journal of \$276,837.47 from Distribution to Transmission. Audit Request 12 D to T Transfer - GL.xlsx shows the resulting posted entry in the General Ledger.”* The second entry provided was:

Debits to account 101010, Utility Plant in Service, specifically account 353890 Other, within the Transmission segment, were noted to be:

Kingston S/S, Insulators, BUS Support 81-250 KV	\$105,508.74
Laconia S/S (new) Insulators, BUS Support 81-250 KV	\$ 5,348.26
So. Milford S/S receivers, communications	\$142,608.87
So. Milford S/S transformer, instrument 81-250 KV	\$ 23,371.60

Credits to Account 101010, Utility Plant in Service, specifically account 362890 Distribution Station Equipment within the Distribution segment were:

Kingston S/S, Insulators, BUS Support 81-250 KV	\$(105,508.74)
Laconia S/S (new) Insulators, BUS Support 81-250 KV	\$ (5,348.26)
So. Milford S/S receivers, communications	\$(142,608.87)
So. Milford S/S transformer, instrument 81-250 KV	\$ (23,371.60)

The summary below was also provided:

Entity	Entity Description	Line of Business	Line of Business Description	FERC Account	FERC Account Description	Account Type	Amount
06	PSNH - Distribution dba Eversource Energy	11100	Non-Tracked Dist	101010	Utility Plant in Service	CPR	(\$105,508.74)
06	PSNH - Distribution dba Eversource Energy	11100	Non-Tracked Dist	101010	Utility Plant in Service	CPR	(\$5,348.26)
06	PSNH - Distribution dba Eversource Energy	11100	Non-Tracked Dist	101010	Utility Plant in Service	CPR	(\$142,608.87)
06	PSNH - Distribution dba Eversource Energy	11100	Non-Tracked Dist	101010	Utility Plant in Service	CPR	(\$23,371.60)
6T	PSNH - Transmission dba Eversource Energy	33100	Transmission Other	101010	Utility Plant in Service	CPR	\$105,508.74
6T	PSNH - Transmission dba Eversource Energy	33100	Transmission Other	101010	Utility Plant in Service	CPR	\$5,348.26
6T	PSNH - Transmission dba Eversource Energy	33100	Transmission Other	101010	Utility Plant in Service	CPR	\$142,608.87
6T	PSNH - Transmission dba Eversource Energy	33100	Transmission Other	101010	Utility Plant in Service	CPR	\$23,371.60

Audit Issue #6

Audit also reviewed the 315,904 lines of journal entries relating to the 2019 activity above. Specific testing could not be conducted, due to the brevity of the time during which the NH PUC Audit review of the Step request was proposed and subject to Order. The Continuing Property Records that were verified to the general ledger detail contained activity codes indicating additions, retirements, transfers, adjustments, etc. Audit requested the definition of each activity code, and was provided with the following:

Activity Code	Description	FERC Activity Definition
MADD	Addition (Closed from 107 (etc) to 106 or 101) Mass	Addition
UADD	Addition (Closed from 107 (etc) to 106 or 101) Specific	Addition
CFNU	Addition - CFNU (Closed from 106 to 101)	Addition
NURV	Addition (106 Reversal)	Addition
ACQU	Addition (Acquisition or Purchase - 101)	Addition
MRET	Retirement (Normal - no gain/loss recognized) Mass	Retirement
URET	Retirement (Normal - no gain/loss recognized) Specific	Retirement
URGL	Retirement (gain/loss recognized)	Retirement
SALE	Retirement - Sale (no book gain/loss recognized)	Retirement
SAGL	Retirement - Sale (book gain/loss recognized)	Retirement
UADJ	Adjustment	Adjustment
UTRT	Transfer (To)	Transfer
UTRF	Transfer (From)	Transfer
ITRT	Intercompany Transfer To	Transfer
ITRF	Intercompany Transfer From	Transfer
IMPA	Impairment Adjustment - IMPA	Impairment

Audit requested clarification of one specific credit entry, identified with the activity code NURV. Specifically, the CPR indicated that within account 106010, Completed Construction not Classified was an “addition” in the amount of \$(2,804,057.07), work order A16E0601, West Rye SS Rebuild. The Company provided the following: *“In the example provided for work order A16E0601, the work order was placed in service in February 2018. At that time and in the subsequent months, debits totaling \$2.8M were booked to the 106 account using the UADD Addition (Closed from 107 (etc.) to 106 or 101) Specific activity code and Plant Account 362100 Dist Station Equip. The work order was then closed in July 2019. At that time, a credit was booked to 106 using the NURV Addition (106 Reversal) code and Plant Account 362100 Dist Station Equip and debits were booked to the 101 account using activity code CFNU*

Addition - CFNU (Closed from 106 to 101) and Plant Accounts 361890-Dist Stuct & Improve and 362890 Dist Station Equipment totaling \$2.8M.”

The Powerplan financial system intakes data from a variety of sources, both from within the Powerplan system, and through interfaces with other systems:

- Oracle eBS general ledger interfaces with Powerplan primarily for miscellaneous accounts receivable transactions and income statement closing entries.
- Journal Lines represent manual journal entries booked in Powerplan.
- PowerPlant captures fixed asset processes in Powerplan, such as lease activity, AFUDC, ARO, depreciation, asset retirements, and CWIP to plant-in-service closings.
- A variety of miscellaneous sources interface with Powerplan such as revenue, cash receipts, and transmission billing.
- The Maximo Inventory system accounts for inventory activity.
- Fleet is no longer considered a source system, rather, transactions after June 2017 occur within Powerplan based on adjusting journal entries or cancellation of workorders.
- Commitments represent unvouchered liabilities (accruals).
- Oracle interfaces with Powerplan for accounts receivable and accounts payable.
- Maximo accounts payable also interfaces with Powerplan as appropriate.
- The CR-Allocations module in Powerplan calculates labor overheads and allocation transactions from the service company to the operating companies.
- Derivation True-up Process within Powerplan adjusts the capital and expense estimates on capital work orders when the work order estimate is updates.

Audit Issue #1 Project INSOH9x

Background

Included in the filing for the Step Adjustment, was an annual project identified as INSOH9x. That project identification represents investments in infrastructure that has been damaged by weather or accidents, etc. Anticipated collection of a portion of the repair cost, from the person causing the damage, is included within each Project Authorization Form.

Issue

Audit requested specific accounting clarification of when, and to what exact general ledger accounts all of the information relating to the INSOH9x projects and related third party billings/customer contributions post. The Company directed the Audit staff to the response in Staff Data Request #17-001. Audit had reviewed that response, which was the reason for the direct and specific accounting question. To date, the Company has not responded sufficiently.

The Company included \$1,789,400 in the current 2019 Step adjustment. This figure does not account for the anticipated contributions of \$(1,189,200).

Recommendation

The Company must provide the accounting information in a clear and concise manner.

The Step Adjustment is overstated by the customer contribution of \$(1,189,200). Therefore, the 2020 contemplated Step Adjustment filing should be reduced by \$(1,189,200).

Company Response

The Company offers the following response to each of the Recommendations above. First, to be responsive to the recommendation that the Company provide the accounting information in a clear and concise manner: Eversource provided Audit with a separate attachment (Attachment 1-Audit Issue #1.pdf) demonstrating a general accounting process overview of a damage claim work order. This attachment describes that damage occurs to Eversource owned equipment that is found to be reimbursable by a third party, a damage claim work order is established. The work order is opened in the system and FERC splits are created in the work order estimate, based on the work

necessary, and are assigned by charge type. The FERC split for the reimbursable charge type is applied to expense, if applicable, and cost of removal per FERC Code of Regulations. The asset replacement occurs at the site of damage and the charges are applied to the work order based on the established FERC splits. If a responsible party is identified, a sundry bill is created. When the billing is processed, the work order is credited for the amount billed based on the FERC split assigned for the reimbursable charge type, and an accounts receivable is created. When the work is complete, unitization occurs. The new asset is recorded in account 101010 and the damaged asset is retired. The cost of removal accumulated on the work order and the credit for the reimbursement is posted to the reserve for accumulated depreciation in account 108010. The receivable remains until payment is received or if uncollectible, written off to an allowance for doubtful accounts.

Eversource also provided a separate attachment (Attachment 2-Audit Issue #1.pdf) that provides a specific example of a damage claim work order that has been included in the step adjustment. This shows the estimate with the FERC splits, the damage claim billing report, actual charges per FERC account and the unitization and retirement for this work order.

Next, to be responsive to the recommendation that the step adjustment should be reduced by the customer contribution amount of \$1,189,200, the Company offers the following clarifications. As an initial matter, the dollar amounts referenced in the audit finding are pulled from the Company's Project Authorization/Supplement Request Form, which is an estimated amount of *capital expenditures* for a given time period. Conversely, the step adjustment revenue requirement calculation is based on actual *plant additions*.

For the INS projects, the plant in service for 2019 is \$966,433 as shown on Attachment LGL/DLP-1, page 4, line 43, column K. This number is analogous to lines 1, 5 and 6 in the Cost Summary table from the Project Authorization Form and is provided below. In other words, the \$1,789,400 is not reflected in the step adjustment revenue requirement calculation because that amount reflects the authorized budget; not the actual spending or plant in service. The actual plant in service reflected in the step is \$966,433, as referenced above. Similarly, the \$1,189,000 referenced in the finding is associated with the estimated customer contribution. The actual contribution reflected in the revenue requirement as part of Accumulated Provision for Depreciation is \$1,903,172 for 2019.

This information is included in the Work Order Cost Summary data provided in the response to Staff 17-001. The credit to 108030 is included in the Accumulated Provision for Depreciation as part of the revenue requirement shown in Attachment ELM/EAD-1, Page 2, line 2. This reimbursement number is analogous to line 2 in the Cost Summary table below.

The credits to the work orders for bills sent out to person(s) identified as causing damage to Eversource property are predominantly credited to FERC account 108030,

although there are exceptions where these credits appear in FERC account 101010. In calculating the revenue requirement for the step adjustment, the Company calculates the revenue requirement based on actual net book value, inclusive of both amounts (i.e., the \$966,433 appearing in plant in service, plus the credit to accumulated depreciation (account 108030) of (\$1,903,172). As a result, although the audit finding is correct that the credit for customer contributions *does not* appear as a reduction to plant in service in account 101, it *does* appear as an increase to accumulated depreciation in account 108, reducing the net book value on which the revenue requirement is calculated. In other words, the credit for amounts billed out to those that caused damage to Eversource property are included as a reduction to the revenue requirement which is the basis for this step adjustment request. The credits increase the Accumulated Provision for Depreciation and therefore lower the net plant amount, having the same effect as a credit to plant additions.

The Company also offers the following as additional explanation of the amounts referenced in the audit finding:

The Project Authorization Form/Supplement Request form is a process that authorizes funding of expenditures for capital additions and cost of removal. In reviewing the September 11, 2020 Supplement Request Form provided in the response to Staff 17-001 and shown in the excerpt below, the original authorization was for a gross expenditure of \$1,789,400 which includes investment for plant additions and cost of removal.

Supplement Request Form

Date Prepared: September 11, 2020	Project Title: Insurance Claim/Keep Costs Program
Company/ies: Eversource NH	Project ID Number: INSOH9R (Overhead), INSUG9R (Underground), INSDB9R (Direct Buried)
Organization: NH Operations	Plant Class/(F.P. Type): Distribution
Project Initiator: Patrick Sullivan	Project Type: Annual
Project Manager: Mark Sandler	Capital Investment Part of Original Operating Plan? Y
Project Sponsor: Joseph Purington	O&M Expenses Part of the Original Operating Plan? Y
Current Authorized Amount (Gross): \$1,789,400	Estimated in service date(s): 12/31/2019
Supplement Request (Gross): \$814,000	Other:
Total Request (Gross): \$2,603,400	

This gross authorization excludes any reimbursements that may be received to offset the expenditures. In the case of a damage claim project such as the INS family of projects, the gross authorized amount excludes any amount of reimbursements that may be received from the person(s) responsible for the damage to Eversource property. The Cost Summary table shown in the excerpt below provides a breakdown of the capital expenditures. A new column has been added to describe the account where the charges associated with each line are initially collected.

Supplemental Cost Summary

Note: Dollar values are in thousands:

Line		Prior Authorized	Supplement Request	Total	Comments
1	Capital Additions - Direct	\$ 688.1	\$ 203.7	\$ 891.8	107
2	Less Customer Contribution	(1,189.2)	(583.7)	(1,772.9)	107 + 108 (CE A69)
3	Removals net of Salvage ____ %	211.8	19.3	231.1	108
4	Total Direct Spending	\$ (289.3)	\$ (360.7)	\$ (650.0)	Sum L1, L2, L3
5	Capital Additions - Indirect	869.1	596.4	1,465.5	107 + 108 (Overheads)
6	AFUDC	20.4	(5.4)	15.0	107 (AFUDC)
7	Total Capital Request	\$ 600.2	\$ 230.3	\$ 831	Sum L4, L5, L6
8	O&M	-	-	-	N/A
9	Total Request	\$ 600.2	\$ 230.3	\$ 830.5	L7 + L8

Audit Conclusion

Audit appreciates the Attachments, which are included at the end of this report.

Within the paragraph regarding the \$1,789,400, included in the Company comment above, Audit reviewed and understood the Step to be a total of \$125,203,453. The total \$1,789,400 is included within the Annual Blanket Projects total of \$45,441,214, part of the overall Step adjustment figure of \$125,203,453 summarized at the beginning of this report, and represented below:

		Step 1 - Calendar Year 2019	
<u>Line</u>	<u>Category Description</u>	<u>Plant Additions</u>	<u>Reference</u>
	Col. A	Col. B	Col. C
1	Specific Projects	\$ 74,851,135	Pages 2-3
2	Specific Carryover Projects	4,911,104	Pages 5-7
3	Annual Blanket Projects and Programs	45,441,214	Page 4
4	Total Plant Additions	\$ 125,203,453	

The reference to the revenue requirement vs. what has been included in the Plant in Service is not applicable to what has been recorded in either Plant account 101 or 106.

The timeliness of receiving the contribution (from the person who caused the reimbursable damage) and posting that to the work order must be reviewed as part of the business process audit.

Audit reiterates the issue.

Audit Issue #2

Regarding Property Insurance

Background

Within Data Request TS 4-001 was discussion regarding the property insurance recorded within the INSOH9x projects.

Issue

Audit requested clarification of the property insurance policy that, per the response to Data Request TS 4-001, covers Generation, Transmission, and Distribution. The clarification requested the timing of when the policies were updated to exclude Generation, since the Generating assets were sold in 2018, and also requested what the premium savings were. The response to Audit request #11 has not yet been provided.

Recommendation

The Company must document the details requested, to demonstrate that ongoing property insurance costs are accurately reflecting only insurance related to the Transmission and Distribution segments.

Company Response

The Company provided a response to Audit Request #11 on January 22, 2021 detailing the amount of refund received related to the sale of the generating assets.

Audit Conclusion

Audit reviewed the information provided, which indicated: *“The policy was updated in 2018 and the Company received a return premium of approximately \$827,000 based upon a negotiated amount with our insurers. The amount was derived from estimating the property value of generation making up approximately 32% of our insurable values and then applying a pro-rata based upon the date of the sale in relation to the date of our insurance policy. Attached in Audit Request 11 Insurance Premium Refunds is the journal entry and support for the insurance premium refunds received in March and April 2018.”*

March 2018 entry:

6F Generation 60100.14601X Receivable	\$124,109.40	
61 Corporate 60100.23401X Payable		\$(124,109.40)

April 2018 entry

6F Generation 60100.14601X Receivable	\$703,289.60	
61 Corporate 60100.23401X Payable		\$(703,289.60)

Audit Issue #3

LTC Controls

Background

Regarding Major vs. Minor plant, Staff questioned the inclusion of LTC Controls as “major plant” vs. “minor plant”. Staff Data Request 18-008 asked for *“the FERC justification for capitalizing LTC Controls as these assets are considered minor plant and typically are charged to the transformer major plant account at the time of installation, expensed if replaced without the transformer being replaced.”* The Company indicated that *“[i]n accordance with the Company’s capitalization policy, LTC Controls are not considered “minor plant”...It is the Company’s policy to recognize LTC Controls as Units of Property and capitalized separately due to the fact that the unit could stand alone and would be treated as other capitalized Relays.”* The Staff followed up with a Technical Session request #4-003, to which the Company responded: *“Please see Attachment TS 4-003 A for the Accounting memo dated March 13, 2012 discussing the issue of the capitalization of the installation and replacement of LTC Controls for transformers. This memo references an Eversource policy, APS-08. For reference, that policy is being provided in Attachment TS 4-003 B.”*

Issue

Audit reviewed both the FERC, Staff data request 18-014(c), and the TS 4-003 details. The Company’s March 2012 capitalizing LTC controls memo outlined the reasons for considering them as major plant rather than minor plant, as they had been booked previously. At the outset of that memo is a line that says *“These units could be used on any LTC interchangeably and can be easily replaced”*. Page 1 of 6 of policy attached as TS 4-003B includes *“Items that comprise a retirement unit or unit of property are called minor items of property.”*

Within the FERC instruction bullet #10 Additions and Retirements of Electric Plant, C (3) *“When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement affects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.”* FERC 10. A states *“For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property will be considered as consisting of (1) retirement unites and (2) minor items of property. Each utility shall maintain a written property units listing for use in accounting for additions and retirements of electric plant and apply the listing consistently.”*

By changing the manner in which the LTC controls are booked, the Company is not applying the consideration of “retirement units” vs. “minor property” consistently.

Recommendation

The Company must apply the FERC consistently, and reverse the manner of capitalizing the LTC Controls, rather than expensing the maintenance or replacement of them after the initial installation, as had been done prior to the accounting change.

The Step Adjustment for 2020 should reflect the reduction of the 2019 LTC Controls capitalized as part of the initial Step Adjustment.

Company Response

During 2012, the Company evaluated the function and use of the Load Tap Changer (LTC) Control/Relay unit of property and concluded that LTC Controls/Relays should more appropriately be classified as a separate retirement unit or unit of property. As a result, since 2012, it has been the Company's policy to recognize LTC Controls/Relays as retirement units or units of property and capitalize them separately because the unit could stand alone and would be treated as other capitalized relays.

In accordance with FERC instruction bullet #10, the Company classifies LTC Controls/Relays as part of the Relaying unit of property. The FERC Electric Plant Chart of Accounts, section 362 for Station Equipment, lists both Control Equipment in item #3 and Relays in item #11 as items to be included within this account. The Company's decision to use the Relaying unit of property was because the LTC Control/Relay was found to have similar function and life characteristics of other capitalized relays.

Since implementing this policy in 2012, the Company has been appropriately and consistently applying these capitalization rules for all LTC Controls/Relays. As an enhancement to the Company's asset records, the Company will establish a separate unit of property in the Company's Retirement Unit Manual for the LTC Controls/Relays.

Audit Conclusion

Audit appreciates the summation of the March 2012 memo. Audit understands Relays protect the substation assets, while the LTC merely controls the load tap changer to continually adjust for voltage and current.

Audit reviewed the FERC reference to account 362, Station Equipment, and agrees that the initial installation of items of property shall be capitalized. The issue here relates to the replacement of property initially capitalized which should then be expensed as replaced.

Audit Issue #4

Response to a Specific Audit Request

Background

Via Audit Request #13, issued December 29, 2020, the following question was presented to Eversource. The Company responded January 13, 2021:

“Within your response to Staff 17-001, the zip file of carryover projects is C18ETT, Work Order Summary.xlsx. Within that Excel sheet is a tab called work order summary. Within accounting workorder 18NHVMES, PSNH 2018 VM capital labor charges, posting to 107010, CWIP, cost element A39, Property Taxes. On line 34 is a total credit derivation and on line 35 a miscellaneous credit adjustment. Debit activity on line 35 began in February 2018 and continued through October 2019 for a total of \$65,170.33. The only month in which there was activity on line 34 was November 2019, when a credit of \$(38,858.00) was noted. A third line in the accounting work order ET180UVL reflected a total of \$113,888.71 of property taxes posted to 107010, beginning in February 2018 and continuing monthly through November 2019. I understand and agree that FERC allows property taxes related to major projects to be capitalized while in progress.

- 1. Why would any charge other than labor and related benefits be part of a work order called capital labor charges?*
- 2. The unvouchered liabilities were not reversed one for one. Are they part of an overall reversal?*
- 3. On what basis were any of the property taxes calculated? There has to be a method by which the literal municipal and state property tax invoices can be verified to what has been included in the capital figure. I understand the high level concept of applying property taxes to open work orders, but need the specific details. What system knows in what town what work order should be allocated some portion of exact property taxes? Is there a reconciliation of some sort?”*

The Response provided by Eversource was:

- “1. Towns require Eversource to declare CWIP on their annual filing with the town. The towns then assess a tax on the reported balance of CWIP. These taxes are then allocated to open CWIP Work Orders. FERC Accounting requirements are such that taxes specifically applicable to construction must be included in the costs of construction.*
- 2. Accounting work order 18NHVMES was charged property taxes through October, 2019. In November, 2019, it was identified that this work order should have been cleared out and closed at the end of 2018. Therefore, the 2019 property taxes should not have continued to be charged to this work order and the 2019 property taxes amount of \$38,858 was reversed.*
- 3. As mentioned above, PSNH is required to report any outstanding current CWIP in the towns in NH as part of their annual filing. The towns bill property taxes on the CWIP*

amounts and the taxes are allocated against the current open work orders based upon the actual filing values (multiplied by the town's actual mill rates). FERC Accounting requirements are such that taxes specifically applicable to construction must be included in the costs of construction."

Issue

The questions regarding Audit question 1, Capital labor, and question 2 regarding unvouchered liabilities (accruals) have not yet been answered.

Audit requested a sample of a municipal annual filing, and was provided with a sample related to the town of Amherst. There are no assets associated with this Step that are in Amherst, so the property tax expense could not be verified.

Recommendation

It assists the PUC Audit division when a utility provides complete and timely responses to questions.

Company Response

1. Why would any charge other than labor and related benefits be part of a work order called capital labor charges? (Referring to work order 18NHVMES, PSNH 2018 VM capital labor charges)

The work order description is a generic title and does not limit the types of charges that a work order can accept. The work order in question collects charges for internal Eversource labor, contract arborist labor and associated employee expenses incurred by internal Eversource labor such as meals, mileage, telephone, fees and payments, registration expenses and other employee-related expenses. In addition, property taxes are applied to this work order as property taxes related to Construction Work in Progress (CWIP) are allocated to all open work orders with CWIP charges, including the work order in question.

2. The unvouchered liabilities were not reversed one for one. Are they part of an overall reversal? (Referring to work order ET180UVL)

For work order ET180UVL, the UVLs are reversed one for one in the cost element U10. For example, the UVL for Jan 2018 = \$1,678,149, it was reversed in February 2018 and then a new UVL for February was created for \$2,141,405. The Property Taxes and allocations will not reverse. The property taxes and overheads are applied to all open work orders with CWIP charges. Once the property tax is allocated for the month, the allocated charges remain in the work order and are not reversed.

3. Eversource provided a sample municipal annual filing for the Town of Amherst demonstrating the amount of CWIP reported to the town. As a follow-up, Audit requested another sample municipal filing for a town where vegetation management work was done and included in the list of work orders included in the C18ETT project. Eversource provided a sample municipal filing for the Town of Claremont on January 27, 2021.

Audit Conclusion

Audit disagrees with the inclusion of items such as Registrations and Conference expenses (that for this one work order appear to sum to \$1,785), and recommends exclusion of all similar amounts from the Step.

Audit appreciates the Company identifying the one-for-one reversals of the unvouchered liabilities, and agrees that that is not an issue.

Audit appreciates the municipal filings for both Amherst and Claremont. However, because of the allocation of property taxes over open CWIP jobs, Audit remains unable to verify the accuracy of the capitalization of any property tax figures included in CWIP, nor of the presumed remaining property tax payments that have been expensed in any year.

Audit Issue #5

Timely Unitization

Background

Via Audit request #14, Audit requested clarification of the current status of unitization of all assets reported in account 106 at the end of 2019, \$3,300,641.46.

Issue

Of the reported \$125 million Step Adjustment, \$3,300,641.46 was reflected within the Completed Construction not Classified account 106 at the end of 2019. Audit requested clarification of the current status of unitization of all assets reported in account 106 at the end of 2019. The request has not been answered.

Recommendation

In consultation with the FERC, Office of Enforcement, assets should not reside in the 106 account for longer than one financial reporting period. The assets in account 106 at the end of 2019 should have been unitized to account 101 not later than the end of 2020.

Company Response

The \$3.3M reflected within the Completed Construction not Classified account 106 at the end of 2019 is the net activity for the year (see table below). This net activity includes additions to 106 of \$62.4M in 2019. Of the \$62.4M, \$24.6M has been unitized in 2020. The remaining \$37.8M of 2019 106 amounts have not yet been unitized as not all work management requirements have been met or not all outstanding project documentation has been prepared, completed and received by Plant Accounting. As part of the work order close process, Plant Accounting works with Operations, Investment Planning and Engineering to gather the information required to unitize these work orders. Depending on the size of the project, this information takes time to be prepared, gathered and communicated to Plant Accounting. Once received by Plant Accounting additional time is required as significant reviews and analyses occur. When all criteria are met, the work order will be closed.

		2019 Activity	In service & Completed 2020 Status	
Line	Work Order Status	<u>106</u>	<u>106</u>	<u>Unitized</u>
1	In Service & Completed	\$62,386,436.59	\$37,765,183.38	\$(24,621,253.21)
2	Posted to CPR	(59,332,816.81)		
3	Cancelled	247,021.68		
	Total	\$3,300,641.46		

Work Order Status Definitions:

In Service & Completed: Work orders that have installed capital equipment that are now deemed to be used and useful by Operations. Final documentation requirements need to be met to be eligible for unitization after late charge wait period (3 months) to capture all vendor invoices. Operations is responsible for moving work orders to completed status.

Posted to CPR: Work orders are unitized to 101 by Plant Accounting once all final documentation has been received and accounting review is complete.

Cancelled: Work orders are cancelled and charges will be transferred out of 106.

Audit Conclusion

Based on the information provided by the Company, Audit reiterates the issue, and understands that the business process audit resulting from the docket DE 19-057, may provide the Company with a manner of addressing the proper closing and posting of work orders in a more timely manner.

Audit Issue #6 Reversal of Transmission Related Asset

Background

Within Project NT006, and described in response to TS 4-002, the Company noted that *“as a result of this data request, and upon further review of the specific assets, Plant Accounting has worked with the Engineering and Project Management teams and has determined that these assets are in fact Transmission and not Distribution assets and therefore should not have been transferred from Transmission to Distribution. As a result, \$276,837.47 will be removed from the 2019 Plant in Service step adjustment request.”*

Issue

Audit requested the entry demonstrating the removal of the \$276,837.47 from the Distribution portion of the Eversource general ledger. The journal entry provided to Audit reflected the initial inclusion of the assets, rather than the reversal as requested:

<u>Entity</u>	<u>Line of Business</u>	<u>Accounting Work Order</u>	<u>Month Number</u>	<u>Debit Amount</u>	<u>Credit Amount</u>
06	11100	NFMAW06	07/2019	\$ 105,508.74	
6T	33100	T1188A2	07/2019		\$ (105,508.74)
06	11100	NFMAW06	06/2019	\$ 142,608.87	
06	11100	NFMAW06	06/2019	\$ 23,371.60	
6T	33100	T1188A2	06/2019		\$ (142,608.87)
6T	33100	T1188A2	06/2019		\$ (23,371.60)
06	11100	NFMAW06	12/2019	\$ 5,348.26	
6T	33100	T1188A2	12/2019		\$ (5,348.26)
Total Addition to Distribution				\$ 276,837.47	
Total Reduction to Transmission					\$ (276,837.47)

Audit requested clarification of the entry, as it increased the 06 Distribution assets and reduced the 6T Transmission assets.

Recommendation

The correcting entry must be provided.

Company Response

The Company provided a follow-up response to Audit Request #12 on January 26, 2021 demonstrating the January 2021 entry that transferred \$276,837.47 from Distribution to Transmission.

Audit Conclusion

Audit reviewed the second entry, provided January 2021, along with the explanation that when the original response for the adjusting entry had been provided: *“The reversal of the \$276,837.47 was completed in January 2021 and was not available at the time of the original request...”* The Company should have indicated that the reversing entry would be part of the January 2021 journal entries, rather than provide an entry they knew was not responsive to the Audit request. The proper adjusting entry has been included within the text of this report.

Attachment 1-Audit Issue #1

Accounting Process –Overview

Project INSOH9x - Work Order Example for Damaged Pole \$3,000										
FERC Accounts DR/(CR)										
	CWIP	CCNC	COR	Accum Reserve	Expense	Utility Plant	Accounts Receivable	Cash	Allow for Doubtful Accts	Totals
	<u>Acct 107010</u>	<u>Acct 106010</u>	<u>Acct 108030</u>	<u>Acct 108010</u>	<u>Acct 593000</u>	<u>Acct 101010</u>	<u>Acct 143990</u>	<u>Acct 131010</u>	<u>Acct 144040</u>	
Damage to Eversource system; work order opened and repair cost accumulated	1,650		690		660					3,000
Work order assets used and useful; placed in service status	(1,650)	1,650								-
Responsible party identified and billed				(2,340)	(660)		3,000			-
Work order unitized		(1,650)	(690)	690		1,650				-
Eversource receives partial payment							(1,000)	1,000		-
Remaining receivable written off							(2,000)		2,000	-
Totals	-	-	-	(1,650)	-	1,650	-	1,000	2,000	3,000

Work Order Example -Estimate

The work order estimate is established in the system. Each charge type is assigned a specific FERC split. Reimbursables R02 is split between expense (593) and cost of removal (108). Reimbursements are applied to account 108 per FERC Code of Regulations for account 108 Accumulated provision for depreciation of electric utility plant stating in part (e) 'Other items, including recoveries from insurance'

PowerPlan ----- PPLNPRD Database

File Edit Subsystem Batch Admin Preferences Window Help

Unit Cat Projects Budgets Assets Depr Tables CR Admin MyPlan Help Calc Print Win

Work Order Estimate Details

Work Order 9A920046 Constr \$2,314.15 Retirements \$0.00 Credits \$0.00 Est Start Date 02/24/2019

Revision 3 Expense \$0.00 Removal \$995.63 Jobbing \$0.00 Est End Date 02/24/2019

Estimates Blue = Already used in utilization Green = 'Open' Estimate (not for utilization)

Additions & Retirements Cost of Removal & Salvage Expense & Jobbing Summary

Type	Description	String	Ferc Account	Percent	Entity	Type Of Business	Cost Element	Charge	Source	Code
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Other Misc Acct-A01	108030	19.57700000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Other-000	107010	45.50200000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Other-000	593000	34.92100000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Other-000	108030	19.57700000%	*	*	*	*	*	*
Acct Derivation	Loaded from STORMS interface	069A920046Reimbursables-R02	108030	71.18100000%	✓	*	*	*	*	*
Acct Derivation	Loaded from STORMS interface	069A920046Reimbursables-R02	593000	28.81900000%	✓	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Rents + Leases-J00	107010	45.50200000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Rents + Leases-J00	593000	34.92100000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Rents + Leases-J00	108030	19.57700000%	*	*	*	*	*	*
Acct Derivation	Loaded from STORMS interface	069A920046Salvage-M02	108040	100.00000000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Taxes-T00	107010	45.50200000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Taxes-T00	593000	34.92100000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Taxes-T00	108030	19.57700000%	*	*	*	*	*	*
Acct Derivation	Loaded from STORMS interface	069A920046Vehicle-V00	107010	45.50200000%	*	*	*	*	*	*
Acct Derivation	Loaded from STORMS interface	069A920046Vehicle-V00	593000	34.92100000%	*	*	*	*	*	*
Acct Derivation	Loaded from STORMS interface	069A920046Vehicle-V00	108030	19.57700000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Wholesale Expenses-W00	107010	45.50200000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Wholesale Expenses-W00	593000	34.92100000%	*	*	*	*	*	*
Acct Derivation	Generated from CDRP Storms/PassPort	069A920046Wholesale Expenses-W00	108030	19.57700000%	*	*	*	*	*	*
Update Derivation	Update Derivations	9A920046	186950	100.00000000%	06	11100	*	*	*	9

Work Order Example –Billing Report

EVERSOURCE

Electric Distribution

Actual Sundry Billing Summary
(Customer Billing and Account Distribution)
1K Property Damage

Responsible Party: William R McMann
93 Summer St
Lancaster, NH 03584

For Expenses Incurred On: 01/25/2019

As a Result of an Accident: Fletcher St, Lancaster, NH

Description of Damage: Event#3852061 Town Truck slid into and broke pole 24/17B while sanding

Custodian: Other

	<u>Direct</u>	<u>Loaded</u>
LABOR	\$716.08	\$1,490.90
TRANSPORTATION	\$277.14	\$342.91
	\$993.22	\$1,833.81

Account Distribution for Billing Company Name: Eversource

Entity	Charge Cc	Field Work Order	Activity	Task	Cost Element	Line Of Business	Ferc Account	Work Request	Amount
06	7CU	9A920046			A69			3237196	\$1,833.81

Work Order Example - Charges

Charges are applied to the work order based on the FERC splits in the estimate

Accounting Wor 9A920046								71.181%				28.819%	
Sum of Amount				FERC Account									
Cost Element	description	GL Journal Category	Source ID	101010	106010	107010	108010	108030	593000	926300	Grand Total		
A66	AFUDC Debt	AFUDC	PowerPlant			0.16					0.16		
A69	Reimbursables- Other	CR DERIVATION	Accounts Receivable					(1,305.33)	(528.48)		(1,833.81)		
A85	Miscellaneous Accounting Adjustments	NON-UNITIZATION	PowerPlant		908.16	(908.16)					0.00		
		Retirement	PowerPlant	(35.69)			35.69				0.00		
		UNITIZATION	PowerPlant	908.16	(908.16)	0.00	(914.67)	914.67			0.00		
		CR DERIVATION	Payroll			9.10		3.92	6.98		20.00		
E13	Meals	CR DERIVATION	Payroll			231.70		99.68	177.83		509.21		
L12	Labor Straight Time Non-Exempt	CR DERIVATION TRUEUP	Derivation TrueUp					0.01	(0.01)		0.00		
		CR DERIVATION	Payroll			94.13		40.50	72.24		206.87		
L22	Labor Overtime Non-Exempt	CR DERIVATION	Payroll								0.00		
S27	Joint Line Billing	JBL	Accounts Receivable				0.00				0.00		
ZAS	Admin and Eng OH- Acct Use Only	CLEAR CANCELS ALLOCATION	Allocations							(2.36)	(2.36)		
		CR DERIVATION TRUEUP	Derivation TrueUp			(1.65)		(0.71)	2.36		0.00		
		Loader	Allocations			4.72		2.03			6.75		
ZEL	Alloc- E+S OH Lines- Acct Use Only	CLEAR CANCELS ALLOCATION	Allocations							(196.93)	(196.93)		
		CR DERIVATION TRUEUP	Derivation TrueUp			(137.69)		(59.24)	196.93		0.00		
		Loader	Allocations			394.30		169.64			563.94		
ZMI	Misc Dist Exp Capitalized OH-Acct Us	CLEAR CANCELS ALLOCATION	Allocations							(7.88)	(7.88)		
		CR DERIVATION TRUEUP	Derivation TrueUp			(5.51)		(2.37)	7.88		0.00		
		Loader	Allocations			15.77		6.79			22.56		
ZNP	Non Productive Time Loader- Acct Use	CR DERIVATION TRUEUP	Derivation TrueUp			0.00		0.00	0.00		0.00		
		Overhead	Allocations			44.54		19.16	34.18		97.88		
ZPB	Payroll Benefit Loader- Acct Use Onl	CR DERIVATION TRUEUP	Derivation TrueUp			0.00		0.00	119.24	(119.24)	0.00		
		Overhead	Allocations			155.37		66.84	(119.24)	238.48	341.45		
ZVE	Vehicle Costs Clearing- Acct Use Onl	CR DERIVATION TRUEUP	Derivation TrueUp					0.01	(0.01)		0.00		
		Overhead	Allocations			103.22		44.40	79.22		226.84		
Grand Total				872.47	0.00	0.00	(878.98)	0.00	(158.05)	119.24	(45.32)		

Work Order Example –Closed to Utility Plant

Once work is complete the work order is closed and posted to the CPR

Company	GL Account	Account	Prop Tax Dist	Location	Retire Unit	Depr Group	Work Order	Class Code
Search or Select One or More Work Orders							Load WO from file	
<div> <div> <input type="text" value="9a920046"/> </div> <div> <input type="text" value="9A920046"/> </div> </div>							<input type="radio"/> Ledger Only <input checked="" type="radio"/> Ledger and Activ	
<input type="checkbox"/> Restricted by Company <input type="button" value="Display Filter"/> <input type="checkbox"/> Show Active Attributes							<input checked="" type="checkbox"/> Active (\$ <> 0) <input type="checkbox"/> Active (\$ Net 0) <input checked="" type="checkbox"/> Inactive	
In Servic	Eng In Servic	Related Asset	Related Equi	Property Group	Long Description	Quantity	Cost	Asset Location Long Description
Jan-2019	Jan/2019			Towers, Poles,	Pole JO > 35ft	1.00	.00	6257 : NH : LANCASTER : 6257
Jan-2019	Jan/2019			Dist Serv,	SERVICE_OVERHEAD	1.00	908.16	6257 : NH : LANCASTER : 6257
							.00 Public Service Co of New Hamps101010 Utility Plant in Service	
							908.16 Public Service Co of New Hamps101010 Utility Plant in Service	

34

Work Order Example –Sundry Receivable

Issuance of invoice on 3/22/19 to TOWN OF LANCASTER DPW – OAR 4000372082

The screenshot displays a 'Transactions (SUNDRY OU - USD)' window. The 'Transaction' section includes fields for Source (STORM), Number (93476), Class (Invoice), Type (06_DAMAGE), Reference (3237196), and Legal Entity (NSTAR Electric Operating Company dba). The Date is 22-MAR-2019, GL Date is 22-MAR-2019, Currency is USD, and Transaction is STOR. A 'Balance Due' summary shows Line 0.00, Tax 0.00, Freight 0.00, Charges 0.00, and Total 0.00. The 'Ship To' section lists Name, Number, Location, Address, and Contact. The 'Bill To' section lists Name (TOWN OF LANCASTER DPW), Number (4000372082), Location (759430), Address (25 MAIN ST), and Contact (LANCASTER, NH 03584 United States). The 'Sold To' section lists Name and Number. The 'Paying Customer' section lists Name, Number, and Location. The 'Payment Details' section lists Receipt Method, Payment Method, and Instrument Number. The 'Commitment' section lists Payment Term (30 NET), Invoicing Rule, and Due Date (21-APR-2019).

Accounting Detail:

Select	Ledger	Account	AccountDescription	GL Date	Accounting Class	Accounted DR	Accounted CR
●	NU_LEDGER	06.00000.143990.A85.000.310.SUNAR06.00.00.00000.000000	PSNH - Distribution dba E.Default.Sundry AR.Miscellaneous Accounting .Default.Miscellaneous Other.AR - Sundry Billing Syste.Default.Default.Default.Default	22-Mar-2019	Receivable	1833.81	

The Accounting Detail demonstrates a debit to 06.00000.143990.A85.000.310.SUNAR06.00.00.00000.000000 in the amount of \$1,833.81

