STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: January 19, 2021
AT (OFFICE): NHPUC

FROM: PUC Audit Staff

SUBJECT: Pittsfield Aqueduct Company, Inc.
FINAL Audit Report – DW 20-153

TO: Stephen Frink, Director of Water and Gas Division
Jayson Laflamme, Assistant Director of Water and Gas Division
Robyn Descoteau, Utility Analyst
Lynn Fabrizio, Hearings Examiner

INTRODUCTION

Pittsfield Aqueduct Company, Inc. (PAC) filed on November 16, 2020 for a change in rates.

By Order #25,292 issued on November 23, 2011 in docket DW 11-026, the City of Nashua was authorized to purchase all outstanding shares of Pennichuck Corporation. The regulated entities owned by Pennichuck Corporation, Pennichuck Water Works (PWW), Pennichuck East Utilities (PEU), and Pittsfield Aqueduct Company (PAC), as well as the two unregulated entities, The Southwood Corporation (TSC) and Pennichuck Water Services Company (PWSC) remain as individual legal entities, each 100% owned by Pennichuck Corporation. The City's purchase of the stock of Pennichuck Corporation did not change the legal status of the regulated or unregulated entities.

The estimated purchase costs on which the City Acquisition Bonds (general obligation bonds) would be used were reported to be:

	Estimated	Actual Costs
Merger consideration	$137,793,398	$138,413,923
Bond issuance costs and fees	$ 1,800,000	$ 996,460
Transaction costs and fees	$ 5,286,875	$ 3,859,505
Severance costs	$ 2,219,612	$ 2,300,113
Rate Stabilization fund	$ 5,000,000	$ 5,000,000
Total Estimated Costs	$152,099,885	$150,570,000

The merger consideration and transaction costs have been established as a Municipal Acquisition Regulatory Asset (MARA) on the financial books of the regulated utilities. The asset will be depreciated based on the amortization of the City Acquisition bonds. PUC Audit conducted an independent audit of the costs included above, and the resulting MARA. The report was issued on 11/19/2013.

The Merger consideration represents the $29 per outstanding share of stock at the date of the purchase (1/25/2012). Bond issuance costs and fees represent the estimated legal fees and fees associated with First Southwest, the City's financial advisor, and other fees. Transaction costs and fees represent those costs for both the City and Pennichuck Corporation resulting from the transaction, including legal, accounting, investment banking, and due diligence. The fees were specifically estimated to exclude eminent domain costs incurred by Pennichuck (or any subsidiary) as outlined in docket DW 10-091. Severance costs represent those costs relating to the termination of senior corporate management of Pennichuck Corporation. Rate stabilization fund represents an infusion of cash from the City and Pennichuck Corporation to PWW to provide a funding source for payment of the bonds, in the event of adverse revenue developments in the regulated utilities.

The City financing costs of $150,570,000 were allocated to affiliate equity accounts. PWW allocation was reduced by the $5,000,000 Rate Stabilization Fund (detailed in the Order). PAC's pro-rata share is calculated as follows:

Total City Bond Financing	$150,570,000
Less: Rate Stabilization Fund	$ 5,000,000
Amount prorated between Utilities	$145,570,000
PAC Share	1.66%
PAC Prorated Share	$ 2,423,594
PAC Share of Rate Stabilization Reserve	$ 100,000
Total PAC Share for CBFRR/MARA	$ 2,523,594

Refer to the Equity portion of this report for further information relating to PAC.

The resulting Municipal Acquisition Regulatory Asset (MARA) assets were originally recorded on 1/25/2012, and are being amortized. The balances at 12/31/2019 were noted in the following deferred accounts:

PWW	186100-xxxx-001 Acquisition Premium MARA	$64,741,956
PAC	186100-6000-001 Acquisition Premium MARA	$ 1,186,226
PEU	186100-xxxx-001 Acquisition Premium MARA	$ 7,366,833
	Total MARA as of 12/31/2019	$73,295,015

Schedule 3, Attachment B of the filing eliminated the 13-month average MARA from the rate base calculation. Refer to the Deferred Debits portion of this report for additional information.

Dockets and Orders since the Prior Rate Case

The prior rate case for test year 2012 was docketed as DW13-128, with seven orders resulting. Order #25,695 permanent rate increase of 8.95%, WICA Pilot Expires, ROR is 6.14%, and future ROE based on most recent 12-month Treasury bond (30yr +3%). Order #25,752 approved recovery of temporary rates and rate case expenses.

Order #25,772 approved $165,000 SRF Loan for new water main on Catamount Rd phase 1 to provide backup service. Order #25,888 approved $440,000 SRF Loan for new main on Fairview St. and Catamount Rd phase 2. Order #26,013 granted a motion to waive competition bid PUC 1905.04 rules for legal counsel in anticipation of upcoming rate case. Order #26,125 approved refinancing of 10 year fixed rate inter-company notes that mature 5/1/2018 for $776,850 and convert $409,150 short term debt to long-term debt; both will be one loan intercompany payable with a 3.2% interest rate. Order #26,211 added the cost of federal income tax associated with CIAC to contributor.

Management Service Agreement

Audit requested and was provided with the Cost Allocation and Service agreement in place during the test year. The Company forwarded a copy of an agreement dated January 1, 2006 among Pennichuck Corporation (PNNW), Pennichuck Water Works, Inc.(PWW), Pennichuck East Utility, Inc., Pittsfield Aqueduct Company, Inc., Pennichuck Water Service Corporation, and The Southwood Corporation. The agreement identifies that Pennichuck Corporation has no employees, rather, uses the employees, office space and equipment of Pennichuck Water Works. The agreement outlines services that PWW will provide to the Corporation, and all other subsidiaries:

1. PWW shall provide all corporate administrative services required by all subsidiaries;
2. PWW shall provide accounting and financial services to PNNW and all subsidiaries as required, including assisting the corporation and subsidiaries in their acquisition of capital and operating funds, through borrowing and, in the case of PNNW, through the issuance of equity securities;
3. PWW shall provide all subsidiaries and PNNW with information technology services including hardware, software, support, etc.;
4. PWW shall provide the subsidiaries with services and systems required for customer servicing;
5. PWW shall provide PNNW and the subsidiaries with all operating services;
6. PWW will utilize its premises at 25 Manchester Street, Merrimack to conduct the functions outlined in the agreement;
7. Costs incurred by PNNW for the benefit of the subsidiaries shall be allocated in accordance with Section I of Appendix A;
8. PNNW and the subsidiaries agree to pay PWW for services, office space and facilities based on actual costs and expenses, allocable to the subsidiaries and PNNW set for in Section II of Appendix A, updated to the current fiscal year;
9. PWW shall direct charge PNNW and subsidiaries where practical
10. The term of the agreement was seven years, then indefinite one year renewals thereafter.

Based on the reorganization of PNNW, as a corporation owned solely by the city of Nashua, and the fact that the headquarters were moved from 25 Manchester Street in Merrimack to 25 Walnut Street, Nashua, in December 2020, Audit recommends updating the agreement to more specifically align the information contained therein with the present ownership structure and location.

Audit noted that an updated agreement dated June 13, 2007 had been provided to the Commission. Reference to Pennichuck Corporation was identified therein as PCP, reference to leasing the facilities at 25 Manchester Street from HECOP III LLC was noted, Appendix A was updated with narratives explaining the cost sharing methodologies, and an Appendix B which reflected the format to be used in the calculations. Audit verified that the allocations included in the test year comply with the Appendix B format.

Allocation Factors

Within the Filing, Tab 33, pages 401 through 413 are the calculations of the following allocation factors:

Allocation of Corporate Costs $296,836

PWW	$224,060	75.50%	
PEU	$ 58,359	19.70%	
PAC	**$ 4,518**	**1.50%**	Verified to GL 930500 Interco Mgmt Fee PCP
PWSC	$ 9,698	3.30%	
TSC	$ 200	0.10%	

Allocation of Return on common Assets $1,075,505

PWW	$799,215	74.30%	
PEU	$212,374	19.70%	
PAC	**$ 10,533**	**1.00%**	Verified to GL 930510 Interco Mgmt Fee PWW
PWSC	$ 53,155	4.77%	
TSC	$ 228	0.15%	

Allocation of PWW Work Order costs $2,627,829

PWW	$1,765,150	66.80%	
PEU	$ 470,260	17.90%	
PAC	**$ 38,783**	**1.50%**	Verified to GL 930510 Interco Mgmt Fee PWW
PWSC	$ 362,636	13.80%	
TSC	$ -0-	0.00%	

Allocation of Management Fee $8,470,160

PWW	$6,216,598	73.40%	
PEU	$1,656,268	19.60%	
PAC	**$ 120,703**	**1.40%**	Verified to GL 930510, Interco Mgmt Fee PWW
PWSC	$ 474,536	5.60%	
TSC	$ 2,054	0.00%	

The allocations were verified to detailed Excel spreadsheets included in the filing. Included within the calculation of allocable return on common assets, Audit noted that $38,030 of the total $789,010 Deferred Supplemental Executive Retirement Plan (SERP) was allocated among the regulated affiliated. See the Filing, Tab 33 page 407. SERP should be paid by Shareholders rather than ratepayers. This allocation was noted within the Tier 1 spread, and for PAC amounted to 1.5%, or $570. Audit appreciates that the amount for PAC is immaterial, but for PEU at 20.71% represents $7,876, and for PWW at 77.78% is $29,580. **Audit Issue #1**

Rate Filing and Annual Report

Audit verified the 2019 PUC Annual Report to the detailed general ledger and rate filing. The general ledger for account 215, Retained Earnings, as of 12/31/2019 represented the 2018 year-end balance, while the filing figure correctly represented the 2018 year-end balance plus the net income for 2019. Refer to the Retained Earnings section of this report for further details.

Other

Audit verified that each of the Pennichuck companies is properly listed in good standing with the NH Secretary of State, through use of the online business name search.

External Financial Audit

Audit requested the Independent Auditor's Report and the External Financial Audits of the Pennichuck Corporation for the years ending 2018 and 2019. The audited financial statements were prepared by Melanson & Heath, and provided to PUC Audit for review. The Auditor's opinion stated that the financial statements fairly represented PWC's and its subsidiaries financial position for the years 2018 and 2019 and were prepared in accordance with Generally Accepted Accounting Principles (GAAP). Audit forwarded the Company audited financial statements to the Gas/Water Staff at the PUC. Within the filing Tab 28, pages 383 through 395, is a presentation of the Independent Auditors' Reports Pursuant to Governmental Auditing Standards and Uniform Guidance, for the year ended 12/31/2017, required for all entities receiving federal grants. Because Pennichuck received Federal funding from the Environmental Protection Agency (Capitalization Grants for Drinking Water passed through the State of NH DES state revolving fund), the audit is required, although not annually. Refer to the Debt section of this report for more detailed information.

Internal Audits

Refer to the discussion below regarding the Pittsfield Aqueduct Company's Audit Committee meetings.

Minutes of the Board of Directors

Audit reviewed the Pittsfield Aqueduct Company's Board of Director's minutes of 2019 which are found on the Pennichuck.com website.

In year 2019, three meetings were held at the Company's offices at 25 Manchester Street in Merrimack, New Hampshire. The first was held on Friday, February 22, 2019.

In that meeting were the unanimous approval of the May 24, 2018 Board of Directors' minutes and a motion for the approval of a distribution from the Company in the amount of $35,722 to fund Pennichuck Corporation's payment to the City's acquisition debt. That motion was also unanimously approved.

The second meeting was held on Friday, March 22, 2019. In that meeting were the unanimous approval of the February 22, 2019 Board of Directors' minutes, also, a motion relating to authorized signers of PUC tariffs. L.Goodhue stated that Company Management is recommending additional employees be authorized to sign NH Public Utilities Commission tariffs. The minutes recorded that currently, only the CEO and COO are authorized and that it sometimes creates problems if they are out of the office at the same time. It was then unanimously approved that in addition to the CEO and COO, the Treasurer, the Assistant Treasurer and the Corporate Controller of Pittsfield Aqueduct Company are authorized to sign tariffs,

The Annual meeting was held on Thursday, May 23, 2019. In that meeting, a motion to elect a Chairman for the following year was made by J. McGrath and seconded by J. Lustig with all the Directors unanimously electing Thomas J. Leonard as the Chairman of the Board of Directors for Pittsfield Aqueduct Company for the year 2020. Also, the Board unanimous approved the March 22, 2019 Board of Director's minutes.

After approving the previous Board minutes, the Board considered the election of Officers for the following year. A motion was then made by S. Genest and seconded by J. Murphy and with all the Directors present, it was unanimously resolved that the following individuals will serve in accordance with the by-laws of Pittsfield Aqueduct Company, Inc. and at the discretion of the Board of Directors:

Larry D. Goodhue	Chief Executive Officer, Chief Financial Officer and Treasurer
Donald L. Ware	Chief Operating Officer
Suzanne L. Ansara	Corporate Secretary
George Torres	Corporate Controller
Carol Ann Howe	Assistant Treasurer

Summary of Computer Systems

The Company currently uses Real Asset Management for Plant/CPR records since 2016. Prior to 2016, the Company used BNA Fixed Asset Software. The Company uses Munis for the billing system for customers. The Company uses Proliant for payroll that is recorded in Pennichuck Water Works Inc. (PWW). The Company uses Macola ES for the general ledger (GL). The Company uses Synergen for work orders through the end of 2020 when the Company will move to Cityworks, beginning in 2021.

UTILITY PLANT

Bidding

The Company states that they follow the general bid process for significant capital projects that exceed $10,000 as defined by the Company's requisition policy. The bid process includes a contractor pre-qualification phase prior to the actual bidding for work or equipment that is highly specialized or unique (SCADA Programming or specialized treatment equipment as an example).

The Company indicated exceptions to the policy include emergency/critical projects for which time does not allow for bidding, emergency or unplanned work conducted by municipalities and government agencies, and work requiring uniquely qualified and highly specialized contractors. The Company in the request that took nearly two months to respond to only answered half the audit request that inquired about the general requisition policy. The Company did not answer the portion of Audit Request #15 or #66 having to do with the list of bid results and winners. **Audit Issue # 2**

Continuing Property Records

The Net Book Value (NBV) Report for 2013-2019 showed the beginning balance, additions, deletions and ending balance by plant account only. The report of Asset Acquisitions showed the sub-account number, asset ID, acquisition date, location, description, date placed in service and book cost of the individual assets. The individual asset costs on the Asset Acquisition report rolled up into the NBV Report.

Additions and Retirements to Plant

Activity since the prior audit (DW 13-128, test year ended 2012) was reviewed with the following activity noted:

	Total Additions	Total Retirements
2013	$62,723	$54,791
2014	$34,581	$1,675
2015	$22,109	$5,031
2016	$186,970	$1,062
2017	$67,769	$3,636
2018	$17,456	$17,803
2019	$18,210	$4,556

Summary of 2019 Plant in Service

Summary	Beginning 12/31/2019		2019 Additions	2019 Retirements	Ending 12/31/2019	
301 - Organization	$	75,551	-	-	$	75,551
302 - Franchises			-	-		
303 - Land and Land Rights	$	60,333	-		$	60,333
304 - Structures and Improvements	$	1,007,569			$	1,007,569
304 - Structures and Improvements	$	-			$	-
305 - Collecting and Impounding Reservoirs	$	137,331	-		$	137,331
306 - Lakes, Rivers and Other Intakes	$	38,271	-		$	38,271
307 - Wells and Springs			-			
308 - Infiltration Galleries and Tunnels			-			
309 - Supply Mains	$	309,353	-		$	309,353
310 - Power Generating Equipment	$	55,407	-		$	55,407
311 - Pumping Equipment	$	15,757	1,321		$	17,078
320 - Water Treatment Equipment	$	59,006			$	59,006
330 - Distribution Reservoirs and Standpipes			-			
331 - Transportation and Distribution Mains	$	2,354,135	505		$	2,354,640
333 - Services	$	178,710	9,442	116	$	188,036
334 - Meter and Meter Installations	$	146,636	1,483	2,247	$	145,872
335 - Hydrants	$	105,062			$	105,062
339.02 - Other Plant and Miscellaneous Equipment	$	1,495	-		$	1,495
339.03 - Other Plant and Miscellaneous Equipment						
340 - Office Furniture and Equipment			-			
341 - Transportation Equipment			-			
343 - Tools, Shop and Garage Equipment	$	9,688	-		$	9,688
344 - Laboratory Equipment	$	33,353		2,193	$	31,159
346 - Communication Equipment	$	25,203	5,459		$	30,662
347 - Computer Equipment	$	24,556			$	24,556
348 - Miscellaneous Equipment	$	16,975	-		$	16,975
Total Plant in Service 101		4,654,391	18,210	4,556		4,668,044

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Replace Pittsfield Roof WTP Work Order # 1720996/01 $9,600

The total work order for the roof replacement project was $9,600 in November 2017. The project was under $10,000 per Company Requisition policy so the project did not go out to bid. The work order cost $9,600 that was performed by S&W Roofing LLC. There were two transactions for the project. There was a $5,600 down payment paid on the Company American Express Card and a final payment made to S&W Roofing LLC. for $4,000 for completion of replacing the roof. Audit reviewed both the American Express invoice as well as the S&W Roofing LLC. Payment invoice. The

$9,600 project was booked to account #304800 Water Treatment Structures as a debit and a ($960) credit to cost of removal.

Joy St Main Replacement-Carryover 2013 Work Order # 1300212/01 $47,076

The total work order for the Joy St. Main Replacement-Carryover project from 2013 was $47,076. The Company did not provide a reason why RH White was chosen. **Audit Issue #2** The winner of the bid was RH White Construction based on a review of the work order activity. Audit sampled a number of transactions such as RH White invoices and Engineering and Information Systems overhead. Audit reviewed the journal entries for the accounts that were unitized to plant in service. The Company debited the mains accounts and credited the CWIP account.

Date	Amount	Description	Debit Account	Credit Account
1/1/2013	$ 9,441	Mains 6' and Larger	331100-6000	105222-6000
3/1/2013	$ 498	Mains 6' and Larger	331100-6000	105222-6000
6/1/2013	$ 36,122	Pavements-Dist. Main	331002-6000	105222-6000
6/1/2013	$ 767	Mains 6' and Larger	331100-6000	105222-6000
7/1/2013	$ 248	Mains 6' and Larger	331100-6000	105222-6000
	$ 47,076			

Audit reviewed an RH White invoice for $36,122 that was for work related to the installation of new mains such as trenching, paving, excavation, main installation, and service line connections and removal. Audit reviewed a $465 Engineering and Information Systems overhead charge. Audit verified the charges on the computer screenshot were calculated correctly.

Berry Brook Dam Removal-Carryover 2013 Work Order # 1300858/01 $132,028

The total work order for the Berry Brook Dam Removal-Carryover project from 2013 was $132,028. The winner of the bid was DBU Construction. Audit sampled a number of transactions such as DBU Construction invoices, Engineering, and Information Systems overhead. The Company did not provide the bid results as part of AR #15. **Audit Issue #2** The Company provided the journal entry detail for the $132,028 unitized plant in service charges for the dam removal. The Company debited the Accumulated Depreciation-Cost of Removal account and credited the CWIP clearing account.

Date	Amount	Debit Account	Credit Account
6/1/2013	108,652	108001-6000	105222-6000
7/1/2013	2,276	108001-6000	105222-6000
8/1/2013	3,610	108001-6000	105222-6000
9/1/2013	3,575	108001-6000	105222-6000
10/1/2013	8,683	108001-6000	105222-6000
11/1/2013	946	108001-6000	105222-6000
12/1/2013	1,570	108001-6000	105222-6000
10/1/2014	2,716	108001-6000	105222-6000
	132,028		

Audit reviewed two invoices for DBU Construction that summed to $66,243 related to the Berry Brook Dam removal project. The work consisted of dam removal, stripping and stockpiling sediment, planting, seeding soil, dewatering, cleanup, stream channel restoration, and other miscellaneous work. Audit reviewed a $13,302 invoice from the HL Turner Group. The work consisted of Berry Brook Reservoir Dam design and construction phase related to the removal of the dam. Audit reviewed a $616 Engineering and Information Systems overhead charge. Audit verified the charges on the computer screenshot were calculated correctly.

Catamount Rd Phase 1 Water Main Replacement 2016 Work Order # 16000350/01 $138,410

The total work order for the Berry Brook Dam Removal-Carryover project from 2013 was $138,410. The winner of the bid was Hall Excavation. Audit sampled a number of transactions such as Hall Excavation invoices, inventory, Engineering, and Information Systems overhead. The Company did not respond to AR #15 that should have included a list of bid winners and why they were selected. **Audit Issue #2** The Company provided the unitized journal entry to the plant in service accounts that are summarized in the chart below. The debit account activity consisted of mains, gates, and services. The debits were offset to the CWIP account.

Date	Description	Amount	Debit	Credit
12/1/2016	Pavements-Dist. Main	$ 32,895	331002-6000	105222-6000
	Mains: 6' and Larger	$ 8,644	331100-6000	105222-6000
	Renewed Services	$ 4,820	333200-6000	105222-6000
11/1/2016	Mains: 6' and Larger	$ 82,478	331100-6000	105222-6000
	Gates: 6' and Larger	$ 6,239	331251-6000	105222-6000
	Renewed Services	$ 3,339	333200-6000	105222-6000
10/1/2019	Mains: 6' and Larger COR	$ (5)	331100-6000	105222-6000
		$ 138,410		

Audit reviewed three invoices that summed to $98,532 for work related to the installation of new main on Catamount Rd. during Phase 1 of the project. Audit reviewed an inventory screenshot of a 2-inch curb cut for $202.

Broadway St Main Replacement 2016 Work Order # 16000837/0 $43,509

The total work order for the Berry Brook Dam Removal-Carryover project from 2013 was $43,509. The winner of the bid was DBU Construction. Audit sampled a number of transactions such as DBU Construction invoices, inventory, Engineering, and Information Systems overhead. The Company did not provide a reason as to why DBU Construction was selected. **Audit Issue #2** The Company provided the unitized plant in service charges. The plant charges were debited to the mains account and credited to the CWIP account.

Date	Amount	Description	Debit	Credit
2/1/2016	$ 42,943	Mains: 6' and Larger	331100-6000	105222-6000
10/1/2019	$ 566	Mains: 6' and Larger	331100-6000	105222-6000
	$ 43,509			

Audit reviewed a $41,850 invoice from DBU Construction for directional bore to install 6-inch water main per the scope of work signed with the Company. Audit reviewed a $561 invoice from New England Traffic Control Services for flaggers related to traffic that needed to be detoured during the installation of the new main on Broadway St.

The Company indicated the project was financed with intercompany debt. The Intercompany debt was converted to long term debt with PCP in DW 18-033 where the NHPUC approved PAC entering into a long term loan with PCP for $1,186,000 for 30 years at an interest rate of 3.2% (Commission Order #26,125).

Catamount Rd Phase 2 and Fairview St Main Replacement Projects

The Commission Order 25,888 authorized the Company to borrow $440,000 in 2016 for the Catamount Rd. Phase 2 and Fairview St for the installation of new main. Based on a review of the 2016 capital budget the Company never actually spent any funds on the project. Audit reviewed an Allonge signed July 25, 2017 that amended the original construction loan agreement signed May 2015 to increase the amount allowed to be borrowed from $165,000 to up to $605,000. This net 440,000 increase was to fund phase 2 of the main replacement project. The drawdown of available credit was not done due to phase 2 being blocked by NHDOT.

E-22s Capital Improvements Budget Request Form

The Company indicated they only filed one E-22 during the 2013-2019 period with the Commission. The Company, in an audit request, provided Audit with an E-22 prepared in 2016 for the Broadway St. main replacement project. The document indicated the project was to cost $49,400 to replace the six-inch main. The project was estimated to be started and finished in the last week of January 2016.

Instead of E-22s, the Company provided 2013-2019 Budgeted vs. Actual spreadsheets that included the construction budget for the year. Construction budgets can be suitable replacements for the E-22, however, the construction budgets were never filed with the Commission, in violation of Commission Puc Rule 609.12. **Audit Issue #3.** Based on a review of the other budgeted vs. actual projects, they were mostly routine items such as replacement of gate valves, meters, services, and hydrants. The other projects include the Joy St Main Replacement-Carryover, Berry Brook Dam Removal, Catamount Rd main replacement phases 1 and 2.

Retirements/ Cost of Removal

Combined plant retirements reported on the Asset Disposition Report totaled $4,556 for the 2019 test-year. This amount agreed with the PUC Annual Report Schedule F-8 - Utility Plant in Service, the Continuing Property Records and the general ledger accounts below:

#333-6000-001 –Services	116
#334-6000-001 – Meters and Installations	2,247
#344-6000-001 – Laboratory Equipment	2,193
Total Retirements	$4,556

The Cost of Removal totaled $709 shown on the Annual Report schedule F-11 - Accumulated Depreciation of Plant in Service and ties to the Cost of Removal Report representing work orders from the Broadway St Main Replacement, Catamount Rd. Main Replacement, and the installation of new meters. The Company recorded no salvage value for retired assets.

Construction Work in Progress (CWIP)

The general ledger ending balance for account 105-6000-001 – Contractor Clearing/CWIP totaled $6,176 consisting of two projects, the Berry Pond Dam Removal and Other Projects Miscellaneous. This figure ties to the 2019 PUC Annual Report and the filing schedule 2, Balance Sheet.

Allowance for Funds Used During Construction (AFUDC)

Audit submitted a request for AFUDC balance and calculations and the Company responded that no AFUDC was recorded in 2019 for any of the utilities.

Engineering, Information System (IS) Overhead Calculation

All of the projects audited contained monthly schedules showing the work-order number, the engineer’s initials, labor hours, hourly rates and the total charge for that particular month. The Engineering and IS Overhead is calculated by using the hours worked for the project in the month, multiplied by the employee's hourly rate plus a factor in the overhead percentage based on the prior year's management fee schedule of benefits.

Contributions in Aid of Construction

The general ledger shows the ending CIAC balance for the test-year 2019 of $1,148,636. This figure agrees with the Annual Report schedule F-46 and the filing Schedule 2C for the years 2015-2019. The CIAC balance has not changed since the DW 13-128 rate case.

271200-6000-001 CIAC	$750,287
271201-6000-001 CIAC-Water Filtration. Grant.	$398,350
Total	$1,148,636
272101-6000-001 Amortization of CIAC	($497,793)
Total Net CIAC per *Schedule 2A BS*	$650,844
Total CIAC per Filing *Schedule 2C*	$652,759
Variance between Filing Schedule 2A BS and 2C	$1,915

The account #272101-6000-001 – Reserve for Amortization of CIAC for the test-year 2019 totaled $497,793 on the general ledger and agrees with the Annual Report and Filing Schedule 2A. The Filing Schedule 2C that breaks out the Amortization of CIAC is overstated by $1,915 and should be adjusted. **Audit Issue #4**

The general ledger shows Amortization Expense of CIAC, account 405300-6000-001 for the test-year 2019 of $22,985. This was based on $1,915 monthly amortization charges that summed to $22,985 as of year-end December 2019. This figure agrees with the Annual Report and the filing Schedule 1**.** Audit traced twelve months of credits for each account being amortized and recalculated amortization rates with no exceptions.

The Tax Cuts and Jobs Act passed in December 2017 and as a result, PAC is no longer able to deduct CIAC from Federal Income Taxes as water utilities lost this exemption. The Commission Order 26,211 authorizes the Company to add the cost of federal income taxes associated with CIAC any contribution. This will be further reviewed during the rate case.

Accumulated Depreciation

Audit verified the Accumulated Depreciation total of $(1,568,525) from the annual report and the filing Schedule 2 to the following general ledger accounts:

108000-6000-001 Accumulated Depreciation	$(2,005,171)
108001-6000-001 Accumulated Depreciation-Cost of Removal	$ 242,584
108002-6000-001 Accumulated Depreciation-Gain/Loss	$ 194,062
	$(1,568,525)

The Chart of Accounts requires that utilities book asset disposition and related cost or salvage to the appropriate plant account and accumulated depreciation account. PAC uses a Gain/Loss account which is a sub account of the accumulated depreciation general ledger. The net effect of the sub-accounting is in compliance with the chart of accounts. The book cost of the retirement is recorded to the accumulated depreciation in the amount of what has been recorded as depreciation expense and the remaining balance is recorded as accumulated depreciation gain or loss.

Depreciation Expense

Depreciation Expense account 403000-6000-001 totaled $101,572 per the general ledger, which was verified to the PUC annual report and the filing Schedule 1. Audit recalculated several accounts for accuracy and found no exceptions.

F-52 ARRA Loan Forgiveness

The F-52 on the annual report indicates the Company received $1,430 in American Recovery and Reinvestment Act loan forgiveness for the Catamount Rd SRF loan they borrowed. Audit reviewed the $1,430 booked on the GL to account # 414000-6000-001, Gain from Forgiveness SRF Debt. This should be considered a Contribution in Aide of Construction. On Bates Page 147 of the filing, the Company indicates that based on the PWW DW 19-084 rate case Settlement Agreement in Audit Issue #4 the Company does not have to follow this practice because it has minimal to no difference on the revenue requirement and is beneficial to ratepayers. The Company further indicated per the PWW rate case (DW 19-084 Settlement Agreement and DW 20-055), section 5, reads as follows, "*Allow PWW to continue its accounting methodology for the principal forgiveness on the Drinking Water State Revolving Fund loans.*" See also the Long Term Debt portion of this report. **Audit issue #5.**

CURRENT AND ACCRUED ASSETS

PAC Cash and Bank Reconciliation

Audit reviewed the activity in the two general ledger cash accounts for the month of December, 2019. The unallocated cash account showed total debits of $804,813 and total credits of $804,813 resulting in a zero balance per the general ledger. The TD Bank checking account statement also showed total debits of $859,170 and total credits of $859,170 resulting in a zero balance per the bank statement.

Audit verified the reported cash on hand per the PUC annual report and filing schedule 2 to the following general ledger accounts:

130110-6000-001 Unallocated Cash	$-0-
131140-6000-001 Cash - TD Bank	$-0-
Total Cash at 12/31/2019	$-0-

The cash reconciliations are created in Excel by the Senior Accountant and maintained on the Company's network, which is backed up nightly.

PAC participates in a Money Pool, evidenced by a Money Pool Agreement dated January 1, 2006, among Pennichuck Corporation, Pennichuck Water Service Corporation, Pennichuck East Utility, Inc., Pittsfield Aqueduct Company, Pennichuck Water Works, Inc., and The Southwood Corporation.

Accounts Receivable Billed - Net $25,308

Audit verified the total reported Accounts Receivable in the PUC annual report, as well as the filing schedule 2, to the following general ledger accounts:

141000-6000-001 Accounts Receivable - Billed Water Revenue	$25,221
141400-6000-001 Accounts Receivable – Other	$ 587
143901-6000-001 Allowance for Doubtful Accounts	$ (500)
Net Receivables	$25,308

The billed water revenue receivable figure represents 4% of the total revenue for the year. Audit reviewed the monthly aging summary and noted the following:

Current	.003%
30 days	77%
60 days	(.006%)
90 days	7.3%
120 days	8.9%
Over 120 days	6.3%
	100%

Audit reviewed the Allowance for Doubtful Accounts which is offset to the Uncollectible Accounts 904000-6108-001. At year end, the expense account reflected a net $4,097. Refer to the Revenue section of this report, and to the Operations and Maintenance section for additional testing.

Materials and Supplies Inventory $0

There was no materials charge on the Filing, General Ledger, or Annual Report during the test year, as they are booked at the PWW level.

Prepaid Expenses and Other $41,124

Prepayments reflect prepaid property tax expense and other miscellaneous expenses. The total on the PUC annual report schedule F-1 was verified to three general ledger accounts as well as to the filing schedule 2.

162100-6000-001 Prepaid Insurance	$ -0-
162700-6000-001 Prepaid Expenses	$ 150
163310-6000-001 Prepaid Property Taxes	$40,974
	$41,124

Audit reviewed all of the transactions for the 162/163 Prepayment accounts with no exceptions. The Prepaid Insurance account contained monthly transactions to record the monthly portion of the prepaid insurance with the offsetting debits to account 924000-6109-001 – Insurance Expense. Refer to the Operations and Maintenance portion of this report for additional details.

The Prepaid Expenses account reflected a beginning balance of $150, with equal activity of five debits and twelve credits, resulting in the ending balance of $150.

The total Prepaid Taxes $40,974 noted is comprised of one asset account and one liability account. Specifically:

Asset	163310-6000-001 Prepaid Property Taxes	$40,974
Liability	236115-6000-001 Local Property Tax Payable	0
	Net Prepaid Tax	$40,974

Audit reviewed the second issue Pittsfield property taxes and recalculated the prepaid amount which properly represents ½ of the 2019 second issue. Refer to the Taxes portion of this report for a detailed summary of the Local Property Tax Payable

Accrued Utility Revenues $76,432

Accrued utility revenue represents the unbilled portion of revenue related to a specific year. Audit verified the reported amount from the PUC annual report to the filing schedule 2, to general ledger account #173150-6000-001 Unbilled Water Revenue.

Account 461100-6100-001, Unbilled Revenue reflected a net change for the year of a debit $(6,173). Audit reviewed the unbilled revenue calculations for the month end December 2019 and January 2020. Entries are automatic reversals. The December calculation of $74,432 was verified to a customer service billing cycle summary page outlining one read-date category and the number of days from the prior billing cycle to the end of the year. The January entry, in the amount of $74,722 was similarly supported. There were no exceptions noted.

Miscellaneous Deferred Debits $1,191,387

Audit verified the total Deferred Debits noted on the filing Schedule 2 Attachment C to four specific general ledger accounts included in the filing.

Account Number	Description	12/31/2019
186100-6000-001	Acquisition Premium - MARA	$ 1,186,226
186650-6000-001	Eminent Domain	$ 3,669
186285-6000-001	Berry Pond Bathymetric Survey	$ 5,161
186998-6000-001	Eminent Domain Allowance	$ (3,669)
Total		$ 1,191,387

The largest balance is account 186100-6000-001, Acquisition Premium MARA which at year-end 2019 reflected a balance $1,186,226. The beginning 2019 general ledger balance was $1,220,575 which agreed with the 2019 filing schedule 2, Attachment C, page 260 of the filing. The general ledger shows the amortization of the deferral, account 407100-6100-001 with an entry in January for $2,800 and 11 monthly entries of $2,868 per month and totaled $34,349 for the year.

Audit reviewed the entries to account 186285-6100-001 - Berry Pond Bathymetric Survey and noted a beginning balance of $8,248 and twelve monthly credit entries of $(257.31) totaling $(3,087) resulting in a test-year ending balance of $5,161. The corresponding debit entries were posted to account 407320-6100-001 – Amortization Expense, Deferred Charges.

Amortization $37,435

Audit verified the total amortization expense to the PUC annual report schedule F49, the filing schedule 1, and the general ledger accounts:

407100-6000-001	Amortization Acquisition Premium	$34,349
407320-6000-001	Amortization Expense-Deferred Charges	$ 3,086
	Total Amortization Expense	$37,435

Audit verified that the Amortization Acquisition Premium total of $34,349 was noted as a pro forma in the filing, schedule 1, in accordance with Order 25,292 and related settlement. The amortization expense was booked monthly with $2,868 premium payments to account # 407100-6000-001 during 2019. The offsetting credit accounts were booked to the 186100-6000-0001 Acquisition Premium-MARA account.

The other charges related to Other Deferred Charges for the Berry Pond Bathymetric Survey for $3,086. The Berry Pond Survey charges will be fully amortized in August 2028. The GL booked to account 407320-6000-001 indicated there were monthly $257 amortization charges. The offsetting credit accounts were booked to account 186285-6000-001 Berry Pond Bathymetric Survey.

LIABILITIES AND EQUITY

Common Stock

Schedule 2A of the filing reports the Common Stock total of $(100), as of December 31, 2019. This $(100) total agrees with the PUC annual report, as well as with the general ledger account 201100, Common Stock. Audit reviewed prior years' general ledger summaries, noting that the 2019 Common Stock total of $(100) has remained constant since at least 2013.

Other Paid in Capital

The 2019 total for Other Paid in Capital was reported on Schedule 2A of the filing, as $(1,899,596). Audit verified this total to page 17 of the PUC annual report, as well as to general ledger account 211000, Additional Paid-In Capital. The pro forma, noted in the filing on schedule 3, attachment A, reflects the elimination of the 1/25/12 paid in capital, totaling $(237,129), as noted to page 6 of 6 in the 4/13/2012 Pennichuck Corporation filing. Audit also noted that the pro forma in the filing schedule 3, attachment A, reflects the elimination of the retained earnings as of 1/25/12, totaling $826,112. Referenced in the prior audit, DW 13-128, the debit entry for the $826,112 elimination was verified as posting to the general ledger on 1/25/2012.

215500-6000-001 Retained Earnings Beg. Balance 2012	$(829,124)
Debit on 1/25/2012	$ 826,112

Audit verified the Commission approval for the elimination of the Municipal Acquisition Regulatory Asset (MARA) and related equity, as per Order 25,292 in DW 11-026, for a total equity of $1,063,241 ($237,129 paid in capital as of 1/25/12 and $826,112 retained earnings as of 1/25/12).

The 2019 general ledger for the Additional Paid in Capital account had one debit entry of $35,722 on 2/28/2019. The description noted that it was to record resolution from the Board of Director's Meeting.

Retained Earnings

The total Retained Earnings of $131,388 noted in the filing on schedule 2A, as well as to page 17 of the annual report, was verified to the following general ledger activity:

215500-6000-001 Retained Earnings Opening Balance	$ 137,454
Net Income per Income Statement F2 of Annual Report	$ (6,066)
Adjusted Retained Earnings at Year End F3 Annual Report	$ 131,388

The general ledger balance for the Retained Earnings account 215500-6000-001 reported a balance of $137,454. Audit noted that there was no activity posted to the account for the test year 2019. The annual report balance sheet, line 10, reflects the

Retained Earnings as account 215, with a balance of $131,388. Audit confirmed the $6,066 variance between the general ledger Retained Earnings total of $137,454 and the annual report/filing Retained Earnings total of $131,388, to the net income reported on the annual report schedule F-2, Statement of Income.

Debt

The Company has long-term debt through a State Revolving Fund (SRF) loan, approved in PUC Order 25,888 of DW 16-035, and through a long-term intercompany loan with Pennichuck Corporation, approved in PUC Order 26,125 of DW 18-033. The SRF loan is associated with the Catamount Road phase 2 project and the intercompany loan reflects advances and payables/receivables among each of the Pennichuck affiliates. Both loans hold a 30 year term limit. Refer to the *Plant* section of the report for details regarding the Catamount Road project.

The petition to borrow through an intercompany loan from PCP, in the original amount of $2,500,000, was approved in docket DW 07-120 by Commission Order 24,827, dated March 3, 2008. The funding was used for capital improvements at Locke Lake and Birch Hill systems. The loan was originally an SRF financing, but due to delays with the approval at the Executive Council, the PCP was chosen as the lender so that construction could begin before the winter. The financing was approved at 7% with a balloon payment due 10 years from the date of the note.

By Order 25,820, issued September 29, 2015, the Company received approval through June 2019 for a short-term debt limit of 18% of net fixed plant. Audit reviewed the Short-Term Debt Threshold calculations spreadsheet, submitted with the annual report, verifying the short-term debt percentage was calculated at 3.39% as of June 30, 2019. The monthly percentage of short-term debt, for each month of 2019, had not exceeded 5.00% of the Company's net fixed plant.

The Company's long-term debt totaled $1,312,186, as reported on page 17 of the 2019 annual report, as well as on Schedule 5 of the filing. Audit verified the total to the following general ledger account balances:

221102-6000-001	Current Portion LTD: SRF Catamount Rd.	$ (2,556)	
221052-6000-001	Forgivable Debt: Catamount Rd.	(38,857)	
221152-6000-001	Forgivable Debt: STD Catamount Rd.	(1,430)	
221002-6000-001	LTD:SRF Catamount Rd.	(121,615)	
	Total SRF Catamount Road	$ (164,458)	
223205-6000-001	Note Payable - PCP 2018 1.1M Loan	$ (1,122,540)	
223215-6000-001	ST Note Payable - PCP 2018 1.1M Loan	(25,188)	
	Total Advances from Assoc Co.	$ (1,147,728)	7% per year
Total Long-Term Debt		$ (1,312,186)	

221xxx-6000-001 SRF Catamount Road $(164,458)

The total balance of $(164,458) for the SRF Catamount Road accounts tied to the filing schedule 2A, as well as page 17 of the annual report, account 221. The following depicts the general ledger detail of the four account balances, comprising the SRF Catamount Road portion of the long-term debt:

221102-6000-001 Current Portion LTD: SRF Catamount Road $(2,556)

The general ledger balance of $(2,556) recorded on the Current Portion LTD: SRF Catamount Road account consisted of twelve credit entries, averaging $213 per month, for the re-classification of the current portion of long-term debt. The amortization schedule for the loan was reviewed by Audit, verifying the balance of the current portion of the long-term debt, totaling $2,556, for the test year 2019. Audit confirmed the offsetting debit entries were recorded to account 221002, LTD: SRF Catamount Rd.

221052-6000-001 Forgivable Debt: Catamount Road $(38,857)

The 2019 year-end balance on the Forgivable Debt: Catamount Road account totaled $(38,857). Audit verified the Commission approval of the *"25% principal forgiveness"* on the SRF loan, per Order 25,888. There were twelve entries on the account to record the monthly forgivable debt amount. Audit reviewed the loan schedule and a copy of the promissory note for the total SRF loan received of $171,162.69, confirming the 25% calculation for the forgivable portion of the loan totaling $42,790, which is comprised of the Forgivable Debt: Catamount Road account balance of $(38,857) and the Forgivable Debt: STD Catamount Road account balance of $(1,430). Refer to **Audit Issue #5**

221152-6000-001 Forgivable Debt: STD Catamount Road $(1,430)

A balance of $(1,430) was reported for the Forgivable Debt: STD Catamount Road account. Audit noted twelve monthly entries, each in the amount of $119.19, to record the forgivable debt. The monthly amount of $119.19 is debited to the forgivable loan account (221152) and credited to the gain from forgivable SRF debt account (414000). Refer to the Forgivable Debt: Catamount Road above for verification of the calculation for the forgivable portion of debt. Refer to **Audit Issue #5**

221002-6000-001 LTD: SRF Catamount Road $(121,615)

The 2019 year-end balance on the LTD: SRF Catamount Rd. account totaled $(121,615). Audit reviewed the general ledger activity, noting twelve monthly debit entries on the account, averaging $213 per month and totaling $2,556, for the re-classification of the current portion of long term debt. The amortization schedule for the loan was reviewed by Audit, verifying the 2019 year-end balance of $(121,615) for the long-term portion of the long-term debt, as well as the December 2018 year-end balance of $(124,171).

223xxx-6000-001 Advances from Associated Companies $(1,147,728)

Audit verified the $1,147,728 long-term intercompany debt total, noted on page 17 of the PUC annual report for account 223, Advances from Associated Companies, as well as to Schedule 6 of the filing. The following represent the general ledger accounts' 2019 year-end balances, comprising the total long-term intercompany debt:

223205-6000-001	Note Payable - PCP 2018 1.1M Loan	$ (1,122,540)	
223215-6000-001	ST Note Payable - PCP 2018 1.1M Loan	(25,188)	
	Total Advances from Assoc Companies	$ (1,147,728)	7% per yr.

Audit noted that the filing Schedule 2A included the short-term debt balances for Accounts Payable to Associated Companies, account 233, with the long-term debt balances for Advances from Associated Companies, account 223. The inclusion of these accounts created a $14,674 variance between the annual report amount of $1,147,728 for the Advances from Associated Companies and the filing amount of $1,162,402. Testimony from Donald L. Ware, Bates page 7 of the filing, states that, *"The $14,674 is a* ***short-term*** *intercompany loan from Pennichuck Water Works, Inc. (PWW) to PAC to provide cash to sustain its operations when cash flow from revenues are not sufficient to cover operating expenses."* Audit verified the Commission approval of converting the short-term debt into a long-term note, as per Order 26,125: *"In this order, the Commission authorizes the Pittsfield Aqueduct Company, Inc., to refinance a 10-year fixed-rate intercompany note that matures on May 1, 2018, at a value of $776,850; and convert $409,150 of variable-rate, short-term intercompany debt into a long-term note. The two notes will be aggregated into a single long-term intercompany note payable as a new intercompany loan in the amount of $1,186,000. The aggregated intercompany loan would be repaid and fully amortized over a 30-year term at an interest rate of 3.2 percent."* Audit reviewed the amortization schedule of the long-term intercompany loan, totaling $1,186,000, and verified the 3.2% interest rate.

Schedule 2A of the filing for the Advances from Associated Companies, account 223, reported a balance of $1,162,402. Audit noted the $14,674 variance between the annual report total of $1,147,728 for account 223 and the filing, schedule 2A, total of $1,162,402 for account 223. The following represents the general ledger account balances included in the total intercompany advances amount of $1,162,402, reported on Schedule 2A of the filing, identified as the Advances from Associated Companies:

233300-6000-001	Interco DIV PAY/REC PAC/PCP	$ (1,719)
233650-6000-001	Interco LOAN PWW/PAC: RSF	(12,955)
	Total Accounts Payable to Associated Companies	$ (14,674)

<u>233300-6000-001 Interco Div Pay/Rec PAC/PCP ($1,719)</u>

Audit reviewed the 2019 general ledger for the account, verifying a year-end balance of $(1,719). Detailed journal entries were provided for each of the twelve monthly transactions on the account recording intercompany interest. Other activity posted to the account was for monthly management fees, Pittsfield maintenance, and the State of NH BET (Business Enterprise Tax) for 2019.

The detailed journal entry for a $379 management fee, posted to the account on 1/31/19, was reviewed by Audit. The Company also provided the 2019 Summary of Allocated Costs, and Audit verified the Pittsfield portion of the management fee expense. The management fees and bank fees were offset to accounts 930500, Intercompany Management Fee – PCP, and 903100, Billing and Accounting, respectively.

The monthly notes payable payments of $5,129 were offset to account 427115, Intercompany Interest, for the interest portion and to account 223205, Note Payable - PCP 2018 1.1M Loan. There was also a December payment of $3,502 for the State of NH BET Tax for 2019, offset to account 236119, Accrued Taxes. Audit requested the supporting documentation for the 2019 BET tax payment and the Company provided the Calculation of the BET, as well as the journal entry detail.

A petty cash transaction was recorded to the Intercompany Div Pay/Rec PAC/PCP account on 5/28/19 and in the amount of $88. Copies of the supporting Request for Check and item invoice was provided by the Company. Audit noted that the petty cash transaction was for the purchase of forty-seven bin floor mount parts from Harbor Freight Tools. The offsetting entry was to account 626100, Operating Expense T Plant: Materials and Expense.

<u>233650-6000-001 Interco LOAN PWW/PAC: RSF $(12,955)</u>

Audit verified the ending balance of $(12,955), for the Rate Stabilization Fund (RSF) loan to the general ledger, as well as to page 17 of the annual report. There were no transactions reported on the account for 2019, with the $12,955 balance remaining constant since at least 2013. The Company explained the reason for the sustained balance on the account in the following statement:

“This balance represents PAC’s usage of available funds from the RSF fund provided to PWW from the City of Nashua acquisition (as funded by them in 2012). The usage by PAC happened in the 2012 and 2013 years. PAC has an approved ability to use those funds, but currently has no regulatory authority to repay them under its current rate structure. Included in this case under DW 20-153, is the request for: (1) PAC to receive $100,000 of those RSF funds as reserved for them in PWW’s rate case in DW 16-806, and (2) the ability to use a portion of those funds to repay PWW for that usage still outstanding as a payable from PAC to PWW.”

The prior rate case, DW 13-128, states that the RSF loan's ending balance was verified to *"the receivable balance on the general ledger of PWW, account 2233-650-001."* Audit understands that PWW maintains the $5,000,000 rate stabilization fund in accordance with the Commission's Order 25,292.

427xxx-6100-001 Interest Expense $41,238

The annual report noted an Interest Expense in the amount of $41,238. Audit confirmed the interest expense to schedule 5 of the filing, as well as to the following two general ledger accounts:

427115-6100-001	Intercompany Interest	$ 37,973
427300-6100-001	Interest Expense: Bonds & Notes	$ 3,265
	Total Interest Expense	$ 41,238

427115-6100-001 Intercompany Interest $37,973

The general ledger for the Intercompany Interest account reported a 2019 year-end balance of $37,973. Monthly transactions on the account were for the intercompany interest related to a loan, authorized in Order #26,125, from PCP to PAC and for intercompany interest for payable/receivables with other subsidiaries (PCP, PWW, PEU, PWS or TSC). The amortization schedule for the intercompany loan was provided by the Company and Audit verified the interest calculations for each month at 3.200%, as approved in Commission Order #26,125. Audit requested clarification regarding how the interest is calculated. The Company stated that, "*The interest in 427115-6100-001 is calculated on a monthly basis for the balance in each of the intercompany accounts for Pittsfield.*"

Audit reviewed monthly interest payment journal entry details. The following depicts the 2019 total in monthly entries on the account, as recorded for both the interest on the intercompany loan, as well as the intercompany interest with other subsidiaries:

Total interest for the PCP Loan	$ 37,152
Total interest on other subsidiaries	821
Total	$ 37,973

Audit verified the offsetting entries for the recurring interest expense. The following represents the interest expense offsets posted to the following intercompany accounts, as of December 31, 2019:

233300	Interco Pay/Rec PAC/PCP	33,049
233500	Interco Pay/Rec PAC/PWS	1
233600	Interco Pay/Rec PAC/PWW	4,825
233700	Interco Pay/Rec PAC/PEU	98
	Total Interest Expense	$ 37,973

Audit noted that there were no true-up entries recorded on the intercompany interest account for 2019. The Company confirmed Audit's finding, stating that, *"There are no true-ups made to this account for interest payments."*

<u>427300-6100-001 Interest Expense: Bonds & Notes $3,265</u>

The general ledger for the Interest Expense: Bonds & Notes account reported a 2019 year-end balance of $3,265. Monthly transactions on the account were for interest payments for the SRF Loan for Catamount Road, with offsetting entries to account 237110, Accrued Interest LTD. The amortization schedule and a copy of the promissory note for the loan were both provided by the Company and Audit verified the interest calculations for each month, as approved in Commission Order #25,888. Audit requested clarification regarding how the interest is calculated. The Company stated that, *"The interest in account 427300-6100-001 is paid from the monthly invoices received each month, which match the amortization schedule."* Audit noted that the interest on schedule F-35 of the annual report, was listed at 3.2% and inquired as to why the amortization schedule calculated the monthly interest at 1.9600%. The Company stated that *"The interest rate of 1.96% is the correct rate for the Catamount Road SRF loan. The annual report is incorrect, it will be adjusted for the 2020 filing. The original order indicated an interest rate at that time, once the SRF project was completed, the interest rate was fixed at 1.96%."*

<u>428000-6100-001 Amortization of Debt Expense $748</u>

Audit confirmed the $748 year-end balance for the Amortization of Debt Expense, account 428, to page 19 of the annual report, as well as to schedule 1604.01(a)(1), Tab 16, of the filing. There were twelve monthly debit transactions on the account, each in the amount of $62, totaling $748 for the 2019 amortization of debt expense. Entries were offset to account 181000, Unamortized Debt Expense. Audit reviewed the amortization schedule for the unamortized deferred debt, as well as the general ledger for account 181000, Unamortized Debt Expense. Page 16 of the annual report, as well as schedule 1604.01(a)(1), Tab 16 and schedule 5 of the filing, tied to the general ledger balance of $21,205 for the Unamortized Debt Expense account. Audit verified the twelve monthly credit entries on the account, in the amount of $62 each.

<u>Current and Accrued Liabilities $(18,255)</u>

Audit tied the general ledger balances, for the current and accrued liability accounts, to page 17 of the annual report, as well as to schedule 2A of the filing. The general ledger accounts, included in the total current and accrued liabilities, were reviewed by Audit. The following represents their 2019 year-end account balances:

231000-6000-001	Accounts Payable	$ (3,262)
233300-6000-001	Interco Div Pay/Rec PAC/PCP	(1,719)
233650-6000-001	Interco Loan PWW/PAC: RSF	(12,955)
241300-6000-001	Misc. Current and Accrued Liabilities	$ (319)
	Total Current and Accrued Liabilities	$ (18,255)

The filing schedule reported the current liabilities total of $(3,581), which consisted of the $(3,262) balance for the Accounts Payable (231) and the $(319) balance for the Other Accrued Expenses (241). Audit noted that the two intercompany accounts (233), with individual balances of $(1,719) and $(12,955), totaled $(14,674) and were reported on page 17 of the annual report as Accounts Payable to Associated Co. The filing schedule 2A included the $(14,674) total, for both of the 233 accounts, within the Advances from Associated Co. (223) total of $(1,162,402); thereby, rolling the current liability balance from the intercompany Accounts Payable to Associated Co. (233) into the long term debt balance of the Advances from Associated Co. (223). **Audit Issue #6**

Audit noted the Commission approval in Order 26,125 allowing for the Company's short-term debt, as of 12/31/2017, to roll into their long-term debt. Refer to the Debt section of this report for further details regarding the Commission Order 26,125, as well as the amortization schedule and interest rate verification.

231000-6000-001 Accounts Payable $(3,262)

The Accounts Payable 2019 general ledger reported a year-end balance of ($3,262), which tied to the filing schedule 2A, as well as page 17 of the annual report. The figure has increased from the 2018 year-end balance of ($1,956). The aged accounts payable listing was provided by the Company and Audit verified the ($3,262) total, as well as noting that all payables are due within 30 days.

Audit reviewed the activity in the Accounts Payable account, noting that the majority of the payments throughout the year were to the same vendors. A total of nine payments were made in the amount of $87 and with the description of "Pittsfield Aqueduct." There were also three additional payments for "Pittsfield Aqueduct," with one made in January, April, and July, for amounts other than the $87. Audit noted the offsetting entries were made to account 642205, Lab Expense Outside Testing, and requested additional information regarding the nature of these payments. The Company explained that these are not recurring and that they are payments to Granite State Analytical for various invoices. Audit reviewed the corresponding "General Ledger Card" (report with specific vendor information), detailing the Granite State Analytical payments for the $87, as well as the General Ledger Card for the Accounts Payable, 231000-6000-001, including the vendor that was paid for each amount.

There were also four quarterly payments, in the amount of $4,960, for the state utility property taxes. Audit verified that the offset entries were made to account 236115, Local Property Taxes Payable. The first quarter payment was split, crediting $3,931 to

Accounts Payable and $1,030 to 141400, Accounts Receivable Miscellaneous – NC, with the total offset of $4,961 recorded to 236115, Local Property Taxes Payable. Refer to the Prepaid Property Taxes section of this report for further details regarding the utility property tax payments.

Audit selected twenty-six general ledger transactions, with at least two transactions from each month, to review in detail. Supporting documentation for each selection was provided. Copies of invoices, check stubs, customer account queries from Munis accounting software, and purchase orders were reviewed by Audit. The findings are noted in the following detail:

Customer Refunds

Audit reviewed two refunds to customers. One refund was for an overpayment on the customer's final bill, in the amount of $57. The overpayment was debited to the account on 2/7/19 with check number 6696. Copies of the Request for Check, check stub, and adjustment form were provided in support of the $57 overpayment. The other refund was an overpayment on a customer's account, in the amount of $186, and was debited to the account on 11/13/19. The general ledger card was provided by the Company and Audit verified the accuracy of the $186 refund transaction on the general ledger.

Petty Cash Transactions

Audit selected two petty cash transactions, totaling $293, for review from the 2019 general ledger. The 5/28/19 credit to the account was in the amount of $85 with a description stating, "Apr 2019 North Country Petty Cash." The other transaction was for a petty cash reimbursement of $208, recorded to the general ledger on 7/12/19. Audit requested the supporting documentation for the two amounts and the Company provided the receipts for the transactions. Purchases were for tool parts from Harbor Freight Tools and a backup battery from Concord Staples.

Travel and Expenses

Audit did not note any travel and expense reimbursements during review of the general ledger and requested confirmation. The Company confirmed, stating that, *"There were no travel and expense reimbursements in 2019."* It was further noted that the Company has reduced their travel and expense reimbursements since Nashua acquired all three companies (PAC, PWW and PEU) of the Pennichuck Corporation.

233xxx-6000-001 Accounts Payable to Associated Companies $(1,719) + $(12,955)

Audit confirmed the 2019 aggregate balance, of $(14,674) for Accounts Payable to Associated Companies, to account 233300-6000-001, Interco DIV PAY/REC

PAC/PCP totaling $(1,719) and account 233650-6000-001, Interco LOAN PWW/PAC: RSF totaling $(12,955). Refer to the Debt section of this report for Audit's findings regarding the intercompany short-term debt, including details for the two 233xxx accounts.

235250 Customer Deposits $0

The PUC annual report reflects a Customer Deposit total of $0, which agrees with the filing schedule 2A, as well as the general ledger. Audit verified the zero balance to account 235250, Hardship Cases: Credits, which reflects miscellaneous receivable credits used to offset small customer account balances. Audit noted that there was no other customer deposit activity on the account for test year 2019, or for the previous year 2018.

241300-6000-001 – Miscellaneous Current and Accrued Liabilities $(319)

Audit verified the Miscellaneous Current and Accrued Liabilities balance of $(319), as listed on page 17 of the PUC annual report, to the filing schedule 2A, as well as to general ledger account 241300. There were monthly transactions on the account to accrue accounts payable for PAC. Audit selected three transactions to review in detail and the Company provided copies of the supporting invoices, detailed journal entries, and month-end accrual documentation. One entry, recorded for July 31, 2019 was described as an accrual for a regulatory charge in the amount of $274. Audit reviewed the supporting detailed journal entry for the regulatory Commission expense. Audit verified the offsetting entry to account 928000, Regulatory Commission Expense. The other two entries reviewed in detail were for first aid supplies and for maintenance of services.

Refer to the O&M Expenses section of the report for detail on the remaining twenty-one invoices reviewed by Audit.

REVENUE

Billed revenue was noted in the PUC annual report, the filing Schedule 1, and the general ledger to be a net total of $(774,537). Audit reviewed the activity within each of the following accounts:

461000-6100-001 Water Sales: Billed Revenue	$(570,120)
461100-6100-001 Water Sales: Unbilled Revenue	$ 3,117
462000-6100-001 Fire Protection	$(204,871)
471300-6100-001 Miscellaneous Operating Rev	$ (2,663)
Total Reported Revenue	$(774,537)
460200-6100-001 CBFRR Revenues	$(146,559)
460998-6100-001 CBFRR Contra	$ 146,559
	$ -0-

Metered Sales in account 461000-6100-001 represent Billed Revenue. Audit reviewed the account activity and noted one monthly credit entry throughout the test year. Three abatement debits was noted. One in April for $45, one in June for $81 and one in July for $20 with the corresponding $20 credit described as a Correction to MUNIS. The Company states that abatements represent cancel/rebills, or adjustments such as correcting for an estimated bill vs. actual meter read. The monthly revenue ranged from a low of $42,230 in April to a high of $54,588 in August.

Fire Protection Revenue, account 462000-6100-001 totaled $(204,871) consisted of 12 monthly entries in the amount of $17,072.56. This total agrees with the 2019 PUC annual report and the filing schedule 1 – Perm-Conventional.

Account 471300-6100-001 Miscellaneous Operating Revenue totals $(2,663) per the general ledger and consists of revenues for miscellaneous services and charges billed to customers which are not specifically provided for in other accounts. The tariff page 42 lists these items as connection and disconnection fees, return check fees and late payment fees.

The City Bond Fixed Revenue Requirement (CBFRR) is a revenue recovery mechanism established to ensure that funds are available for the city to pay the bond taken to purchase the Pennichuck Corporation. Audit verified that twelve months of the monthly CBFRR requirements at $12,213.25 per month to sum to $146,559 which was noted in the general ledger. Refer to Docket DW 11-026.

The 2019 TY ending rate base was reduced by $2,263,803 reflecting the removal of the equity that was purchased by the City along with the Municipal Acquisition Regulatory Adjustment ("MARA"). The MARA were removed from the Company's rate base because in DW 11-026, the Commission granted PAC the CBFRR component to its revenues to pay for the City's debt incurred in acquiring all the shared of stock in Pennichuck Corporation. The CBFRR component of rates is used in lieu of a return on the equity related portions of rate base that were purchased by the City when it purchased of Pennichuck Corporation.

Tariff Review

A sample of customer bills of different rate classes for December 2019 were reviewed to ensure that the tariffed rates for consumption and meter charges were properly assessed. Also, the actual bills were examined to confirm compliance with the tariff section PUC 1203.06 – Bill Forms under Terms and Conditions. No exceptions were noted.

Audit reviewed nine customer bills from December 2019 including several with large past due balances. Per the Company, one customer with a past due balance of $711 entered a payment plan on January 2, 2020 which was completed in May of 2020. Another customer with a past due amount of $819 was on a payment plan that started in July of 2019. Per the Company, the customer did not complete the arrangement prior to moving out of the property and the final amount of $995 was written off to uncollectable accounts. The consumption charges and meter charges were matched to the tariff and recalculated with no exceptions noted.

Rent/Lease Receipts

Audit requested documentation that would support any third party rental/lease agreements for attachments to any tanks or structures, and was informed that the Company does not currently rent any space on utility assets.

Operations and Maintenance (O&M) Expenses $409,416

The filing Schedule 1 reports the total Operation and Maintenance Expenses for 2019 as $409,416. Audit tied this total to page 19, line 3, of the annual report, as well as to the detailed general ledger activity for all of the Operation and Maintenance Expense accounts. The following accounts depict the general ledger activity detail within the Operation and Maintenance Expense accounts and verified to the schedule F-48 of the Annual Report:

Production Expenses $131,316 are comprised of the following account balances:

610200 Maintenance Supervision and Engineering $0

The general ledger reported a $0 balance on the account for the 2019 test year. Audit reviewed the account's prior years' general ledgers, noting that 2013 was the last time that there was any activity reported on the account. The Company explained that, *"The expenses have not been recorded in accounts 6610-200-001 and 6610-201-001 since the end of 2013. Starting in 2014 all of the charges related to wages were recorded in Pennichuck Water Works, Inc. Pittsfield has not incurred any charges in any of the 610-617 maintenance accounts because there was no activity to be recorded."*

623100-6105-001 Power Purchased: Treatment Plant Elec $8,032

Audit reviewed the activity in the Power Purchased account and noted that transactions were for three charges, each related to Eversource bills for two different account numbers." Audit verified one of the monthly charges, totaling $490, to a copy of an Eversource bill provided by the Company. The 2019 year-end account balance of $8,032 indicates a 56% increase from the preceding year-end balance. The Company explained that the increase was due to, *"The expense for the propane used to heat the plant went up due to an increase in pricing and a colder year in 2019 versus 2018."*

624100-6105-001 Operation Labor: Treatment Plant $69,144

The total annual report balance for the Pumping Labor and Expenses of $69,144 was verified to the general ledger without exception. The 2019 year-end account balance increased 2% over the 2018 year-end balance. The general ledger detail was reviewed and contained twelve monthly entries for maintenance expenses. No exceptions were noted. PWW direct charges labor costs when applicable. The total labor for 624100 is related to workorders for work performed by various PWW employees for Pittsfield. This total consists of labor costs plus overhead. A sample $7,090.73 entry, posted on 12/31/2020 was verified to the PWW/PAC workorder journal entry.

626xxx-6105-001 Miscellaneous Expenses $15,277

The $15,277 in total Miscellaneous Expenses was verified to three individual general ledger accounts. Account 626100, Operation Expense Treatment Plant: Materials and Expenses, account 626110, Operation Expense Treatment Plant: Gas/Oil, and account 626120, Operation Expense Treatment Plant: Phone, reported year-end general ledger balances of $4,388, $8,695, and $2,194, respectively, for a total of $15,277 in Miscellaneous Expenses. This total represents an increase of 9% from the 2018 Miscellaneous Expenses' year-end balance. Audit reviewed the detailed general ledger for all three accounts, noting that they contained entries for vendor invoices and accounts payable accruals.

Three journal entries were selected by Audit, one from each Miscellaneous Expense account, to review in further detail. Offsetting entries to each selection were made to account 231000, Accounts Payable. The Company provided the supporting invoices for each of Audit's selections. The following represents the journal entry selections reviewed:

Consolidated Communications

Audit reviewed a $115 invoice, dated on December 5, 2019, for communication services including long-distance. The expense was recorded to general ledger account 626120, Operation Expense Treatment Plant: Phone. No exceptions were noted.

Eastern Propane & Oil

Audit reviewed an Eastern Propane & Oil invoice, dated on February 21, 2019, in the amount of $1,939 for propane purchased. The expense was recorded to general ledger account 626110, Operation Expense Treatment Plant: Gas/Oil. No exceptions were noted.

USA Blue Book

Audit reviewed a $341 USA Blue Book invoice, dated on March 15, 2019, for a repair kit and two 4-function valves. The expense was recorded to general ledger account 626100, Operation Expense Treatment Plant: Materials & Expense. No exceptions were noted.

631xxx-6105-001 Maintenance of Structures and Improvements $23,800

Audit verified the following two general ledger account balances, which comprised the total Maintenance of Structures and Improvements expense: account 631100-6105-001, Maintenance Structure – Treatment Plant, totaling $5,728 and account 631500-6105-001, Maintenance Structure: Source of Supply, totaling $18,071. The combined year-end balance of the two accounts totaled $23,800 for the 2019 test year expenses in Maintenance of Structures and Improvements. This represents a decrease of 1% from the preceding year. The total labor is related to workorders for work performed by various PWW employees for Pittsfield. This total consists of labor costs plus overhead.

Audit reviewed the journal entries on both accounts, noting transactions for vendor invoices, intercompany reclassifications, and accounts payable accruals. Two journal entries were selected by Audit to review in further detail. Offsetting entries to each selection were made to account 233600, Intercompany Pay/Rec: PAC/PWW. Audit examined copies of the Work Order Detail Reports and detailed journal entries for each selection. One selection was dated January 31, 2019, in the amount of $3,463 and the other selection was dated February 28, 2019, in the amount of $2,051. Both amounts were for work related to PAC maintenance of structures: source of supply adjust flow.

633199-6105-001 Booster Station General Maintenance $235

Audit reviewed the detailed general ledger for account 633199, Booster Station General Maintenance. The account contained two debit transactions, one in the amount of $32 and the other in the amount of $203, offset respectively to accounts 233600, Intercompany Pay/Rec: PAC/PWW and 231000, Accounts Payable. The Company provided copies of supporting invoices and the sales order for Audit's selections. The following represents details regarding the journal entry selections reviewed:

Interstate All Battery Center $32

An Interstate All Battery Center invoice, dated on February 1, 2019, was reviewed by Audit. The charge was for a 12V 9AH SLA 250 High Rate battery.

R.E. Prescott Co., Inc. $203

Audit reviewed a $203.26 R.E. Prescott Co., Inc. invoice, dated on June 17, 2019, for silicone grease tubes, shutoff valves, adapters, and a powerhead. A copy of the accompanying sales order was also provided, with materials purchased as needed for "stone sled".

The 2019 year-end balance of $235 represents an increase of 370% from the preceding year. The Company explained that, *"The increase was due to maintenance on the booster stations."*

641xxx-6105-001 Chemicals $5,382

The $5,382 in total Chemicals Expenses was verified to three general ledger accounts. Account 641110, Chlorine: Treatment Plant, account 641120, Aluminum Sulfate/Ferric Chloride, and account 641213, Soda Ash, reported 2019 year-end general ledger balances of $2,727, $1,764, and $891, respectively, for a total of $5,382 in Chemical Expenses. Specifically:

		2019	2018	% change
641110-6105-001	CHLORINE: TREATMENT PLANT	$ 2,726.80	$ 2,739.60	-0.47%
641120-6105-001	ALUM. SULFATE/FERRIC CHLORIDE	$ 1,764.00	$ 1,709.00	3.22%
641160-6105-001	CORROSION INHIBITOR		$ 140.57	-100.00%
641213-6105-001	SODA ASH	$ 891.00	$ 2,435.60	-63.42%
		$ 5,381.80	$ 7,024.77	-23.39%

The total balance represents a decrease of 23% from the 2018 year-end balance. The Company explained that the decrease was due to, *"An extra pallet of soda ash being purchased in 2018 versus 2019. No more soda ash was used in the treatment process this was simply an end of the year purchase that happened in 2018 versus 2019."*

Audit reviewed the detailed general ledger for all three accounts, noting that they contained entries for empty drum credits, as well as vendor invoices for chemical purchases for Ferric Chloride and Soda Ash, along with lab fees. Four journal entries on the account, each for approximately $200, were examined and the offsetting entries were made to account 231000, Accounts Payable, for empty drum credits. The Company explained that, *"The credits are received each time we deliver an empty drum back to Harcros Chemicals."* The supporting invoices were reviewed by Audit, with the findings described in the following:

Harcros Chemicals Inc.

Audit reviewed two Harcos Chemicals invoices. One of the invoices was dated February 28, 2019, in the amount of $200, and the other invoice was dated July 17, 2019, in the amount of $1,528. The invoice totaling $200 was allocated entirely to PAC. The other reviewed invoice, in the amount of $1,528, allocated half of the invoice total of $764 to PAC and the remaining amount to PEU. Audit was able to trace the transaction from PAC's intercompany transfer to PEU general ledger account 233800-7000-001, AP Intercompany Pay/Rec: PEU/PAC.

642205-6105-001 Laboratory Expense: Outside Testing $2,436

The Operation Labor and Expenses total on the PUC Annual Report , F-48 was verified to general ledger account 642205 Laboratory Expense: Outside Testing. The 2019 year-end balance of $2,436 represented a decrease of 58% from the preceding year. The Company explained that, *"The decrease from prior year is due to the volume of lab samples and analysis needed from 2018 versus 2019."*

Activity in the account included payments to Granite State Analytical for monthly lab fees. The Company provided the general ledger card information and Audit verified the Granite State Analytical payments, noting the offsetting journal entry was to account 231000, Accounts Payable. Audit reviewed a Granite State Analytical invoice for lab fees, dated January 21, 2019, in the amount of $343. No exceptions were noted.

Audit also noted monthly charges, for approximately $10 in lab fees, with the offsetting entries made to account 233600, Intercompany Pay/Rec: PAC/PWW. The Company explained that the charge is done monthly for the allocation of lab fees that are charged to Pennichuck Water Works.

<u>652xxx-6105-001 Maintenance of Water Treatment Equipment $7,011</u>

The $7,011 in total for the Maintenance of Water Treatment Equipment was verified to two general ledger accounts. Account 652200-6105-001, Maintenance Proc Equipment: Treatment Plant, and account 652220-6105-001, Maintenance Proc Equipment: SCADA & Other, reported 2019 year-end general ledger balances of $5,199 and $1,812, respectively, for a total of $7,011 in Maintenance of Water Treatment Equipment Expenses. The total balance represents an increase of 51% over the 2018 year-end balance. The Company explained that, *"[The increase was due to] the need to add monitoring equipment and reprogram the SCADA system associated with an alarm required for compliance with the Enhanced surface water treatment rule that occurred in 219 but did not happen in 2018."*

Audit reviewed the detailed general ledger for both of the maintenance of water treatment accounts. Six journal entries were selected for further examination, with three selections made from each of the two accounts. Invoices supporting the journal entry activity were provided and Audit noted expenses were for materials and plant supplies, such as valves, pumps, and a digital pH sensor insertion mount.

A November expense in the amount of $1,153 and a December expense in the amount of $1,199, totaling $2,352, were debited to account 652200-6105-001, Maintenance Proc Equipment: Treatment Plant, from vendor USABlueBook. Audit reviewed the invoices for the two expenses, noting that costs were for two Hach DPD powder pillows (1,000/pk) to use with Hach colorimeter that measures chlorine, six Hach Ascorbic acid powder (100/pk) for EPA accepted wastewater analysis, and six total iron TPTZ reagent tests (100 10mL tests). Six Hack PAN indicator solutions were also included on the November invoice, and a digital pH sensor insertion mount for use with GLI/Hach controller for harsh water and wastewater applications was purchased on the December invoice. **Audit Issue #8**

<u>Transmission & Distribution Expenses $61,179 is comprised of the following accounts:</u>

<u>663100-6106-001 Meter Operating Labor & Expense $9,321</u>

The detailed general ledger for account 663100, Meter Operating Labor & Expense, was reviewed by Audit. The account contained twelve monthly transactions for expenses related to Pittsfield maintenance. Audit selected two entries on the account, in the amounts of $1,497 and $1,096, verifying copies of the supporting work order details and invoices. The amounts were offset as credits to account 233600-6000-001 (Interco Pay/Rec – PAC/PWW). PWW labor costs are direct charged.

The 2019 year-end balance of $9,321 represents an increase of 273% from the preceding year. The Company explained that the increase was due to greater levels of periodic meter testing in 2019 versus 2018.

<u>664200-6106-001 Other Expense on Customer Premises $402</u>

Audit examined the only two journal entries on the account, described as leak credits, and noted the offsetting entries to account 141000, A/R: Billed Water Revenue. The 2019 year-end balance of $402 represents a decrease of 48% from the preceding year, due to leak credits recorded on the account. Audit reviewed the Company's Leak Credit Policy, which stated the following:

"In the event a customer disputes a high bill where the meter test was accurate and all other avenues have been exhausted a good faith credit may be given to the customer and will be determined as follows: Pennichuck will determine the average usage from the previous three years for the same time period that is in dispute. The average usage will then be subtracted from the actual usage on the high bill. Pennichuck will credit, or pay, ½ of that difference. The customer will be responsible for the remainder and will be allowed a payment plan. A customer is only eligible for this good faith credit, or payment, one time in 3 years. Accounts will be noted in detail at the time of a credit."

Audit also reviewed copies of the accompanying Leak Credit Worksheets, provided for a 1/31/19 entry on the account, in the amount of $143, and a 3/31/19 entry on the account, in the amount of $259. The worksheets identified the customer making the request, as well as the location of the property, the nature of the leak, the bill amount and usage, and the date the repair was made.

<u>665100-6106-001 Small Tools Expense $79</u>

The balance in the Small Tools Expenses account reflects a 91% reduction over the 2018 year-end balance. The Company explained that, *"The Small Tools Expense decreased 91.13% or $807 primarily due to purchasing small tolls associated with the hiring of a new employee in the North County in 2018."* The account contained two petty cash transactions, totaling $20.96, offset to account 233600, Intercompany Pay/Rec: PAC/PWW, as well as a two separate entries for supplies, summing to $57.60.

673001-6106-001 Maintenance Mains: Repairs $4,167

The 2019 year-end balance of $4,167 represents an 86% decrease over the same period in 2018. The Company explained that the reduction in the year-end balance on the account was due to a decrease in main repairs in 2019 versus 2018. Audit reviewed the journal entries on the account, noting that there were twelve monthly transactions, all of which were for "Pittsfield Maintenance."

675000-6106-001 Maintenance: Services $36,602

Audit reviewed the detailed general ledger for the Maintenance: Services account. Debit entries were for vendor invoices, maintenance, and one credit entry to reclassify a New England Traffic Control charge to the correct company. The Maintenance: Services account balance increased 71% from the preceding year. Audit referenced a memo that was included with PAC's Annual Report, noting that the large increase in the account balance over the prior year was due to an increase of needed service repairs in 2019 versus 2018. The Company further explained that, *"A number of service leaks were discovered during the increased level of meter periodic testing in 2019 versus 2018."*

676000-6106-001 Maintenance: Meters $1,199

The balance on the Maintenance: Meters account, totaling $1,199 has decreased by 57% over the 2018 year-end balance. The Company stated that, *"The decrease was due to a decline in any necessary maintenance for [meters inspections]."* Audit noted ten entries on the account, averaging $133 per entry, with the description listed as "Pittsfield Maintenance." The work order detail report and detail costs report were provided for a 1/31/19 entry, in the amount of $352. Costs were for labor and truck usage for the maintenance of customer meters in Pittsfield. The offsetting entry was a credit to 233600-6000-001 (Interco Pay/Rec-PWW/PAC).

677003-6106-001 Maintenance of Hydrants $4,644

The Maintenance of Hydrants 2019 year-end balance of $4,644 has decreased by 62% from the preceding year. The Company stated that, *"The decrease was due to a decline in any necessary maintenance for [hydrant inspections]."* The general ledger was examined for the account, noting that there were twelve monthly entries for Pittsfield maintenance. Audit selected one maintenance entry, totaling $1,354, and reviewed the supporting work order detail report and detail costs report. Costs were for labor and truck usage for the maintenance of hydrants inspection in Pittsfield. The offsetting entry was a credit to 233600-6000-001 (Interco Pay/Rec-PWW/PAC).

<u>678000-6106-001 Monitor Contractors Marking $4,767</u>

The Monitor Contractors Marking 2019 year-end balance on the account represents an increase of 17% over the 2018 balance. The Company stated that the increase was, *"Primarily due to increased levels of Dig Safe responses in 2019 versus 2018."* Audit reviewed the general ledger, noting that it contained monthly ledger transactions for Dig Safe and maintenance. There were also quarterly payment entries, offset to account 673001, Maintenance Mains: Repairs, for the 1st quarter payment of $25, and to account 231000, Accounts Payable, for the remaining 2nd – 4th quarter payments. The Company provided the general ledger detail for the quarterly payments, as well as a copy of the invoice for the 3rd quarter charge.

<u>Customer Account & Collection Expense $15,482 is comprised of the following:</u>

<u>902xxx-6108-001 Meter Reading Expense $2,790</u>

The total Meter Reading expense was verified to three individual general ledger accounts. Account 902001-6108-001, Meter Reading, totaling $1,314; account 902098-6108-001, Meter Reading: Transfers, totaling $1,305; and account 902099-6108-001, Meter Reading: Exceptions, totaling $170. The $2,790 combined balance on the three accounts, represents an increase of 31% from the prior year-end. The Company explained the increase in the following statement:

"Meter Reading Expenses increased 31.29% or $665 primarily due to slower meter reading in the winter of 2019 versus the winter of 2018. [This was] due to the need to drive more slowly when reading the meters because of slippery road conditions."

Audit reviewed the journal entries on each of the customer accounts' expenses accounts. No exceptions were noted.

<u>903xxx-6108-001 Customer Records and Collection Expense $8,596</u>

The total Customer Records and Collection Expense of $8,596 was verified to two individual general ledger accounts. Account 903000-6108-001, Customer Orders: Collections, totaling $1,381; and account 903100-6108-001, Billing and Accounting, totaling $7,214. The $8,596 combined balance on the two accounts, represents an increase of 3% from the prior year-end. Audit reviewed the detailed journal entries and accompanying invoices, noting quarterly payments to allocate office time for shut offs, as well as monthly bank fees charged from PCP to PWW/PEU/PAC and offset to 233300, Intercompany DIV PAY/REC PAC/PCP. The following represents the details of Audit's review of the Customer Records and Collection Expense accounts:

903000-6108-001 Customer Orders: Collections $1,381

Audit reviewed one journal entry, dated 3/31/19, in the amount of $232, for the allocation of office time for shut offs. The Company provided the corresponding Work Order Detail Report, as well as the allocation of shut off dues and detailed journal entry. Audit verified the allocation of the PAC portion and the offsetting entry to account 233600, Intercompany Pay/Rec: PAC/PWW. The Company verified that, *"The [$232] journal entry is an allocation of the time that the Shut off Technician spent on each company."*

903100-6108-001 Billing and Accounting $7,214

Audit reviewed three journal entries, dated 1/31/19, 6/30/19 and 10/21/19, in the amounts of $94, $130, and $105, respectively. The Company stated that, *"The first 2 journal entries are for charges for billing and past due notices related to Pittsfield. The $105.10 charge is related to an invoice from Paymentus Group, Inc. These are charges for our customer on line payments."* Copies of invoices and detailed journal entries were provided. Audit verified that the offsetting entries were made to account 233600-6000-001, Intercompany Pay/Rec: PAC/PWW.

904000-6108-001 Uncollectible Accounts $4,097

Audit reviewed the activity for the Uncollectible Accounts, noting that the 2019 year-end balance of $4,097 represented a 97% increase from the 2018 year-end balance. The Company explained that the increase, *"…reflects the fact that more accounts went to collections in 2019 versus 2018 and more accounts reached a point of being written off as uncollectable in 2019 vs. 2018."* The general ledger account contained seven monthly entries to adjust the allowance. The uncollected receivable figure represents 16% of the total receivables at year-end. Refer to the Revenue portion of this report.

Administrative & General Expense $26,902 is comprised of the following:

921xxx-6109-001 Office Supplies and Other Expenses $3,677

The total Office Supplies and Other Expenses was verified to two individual general ledger accounts. Account 921000-6109-001, Office Supplies and Expense, reported a year-end balance of $116 and account 921160-6109-001, Office Supplies and Expense: Phone, reported a year-end balance of $3,561. The $3,677 combined balance on the two accounts, represents a decrease of 37% in office supplies and other expenses, from the prior year-end. The Company explained the decrease in the following statement: *"Office Supplies and Other expenses decreased [by 37%] or 2,115 primarily due to the timing of when bulk office supplies were purchased in 2019 versus 2018."* Activity in the accounts included postage, vendor invoices, and phone costs.

<u>923000-6109-001 Outside Services Employed $8,972</u>

The 2019 year-end balance for the Outside Services account increased 254% from the preceding year 2018. The Company stated that the increase was primarily due to, *"The efforts required by the Company's legal representatives associated with responding [to] the NHPUC investigation into the impact of the change in Corporate Tax Rate on PAC's revenue requirement."* The Outside Services account only contained two transactions, with one for $1 occurring in the 2nd quarter and the other for $8,971 occurring in the 3rd quarter. Audit reviewed the supporting documents for the $8,971 transaction, including the detailed journal entries and trial balance for the offsetting account 186265-6000-001, Abatement. It was noted that the entry was to re-class invoices to outside services. The Company further clarified that, *"These were Abatement expenses that were originally recorded in account 186265."*

<u>924000-6109-001 Insurance Expense $10,654</u>

The 2019 year-end balance for the Insurance Expense account reflects an increase of 9% from the preceding year-end balance. Audit reviewed the general ledger for the account, noting twelve monthly transactions to record the portion of prepaid insurance. Each prepaid insurance entry was approximately $890 and was offset to account 162100-6000-001, Prepaid Insurance.

<u>928000-6109-001 Regulatory Commission Expenses $2,985</u>

Audit verified the 2019 year-end balance of $2,985, for the Regulatory Commission Expenses account, to the general ledger and Schedule 1 of the filing. The PUC Assessment Booklet was also reviewed by Audit, noting the quarterly payments required during the test year.

<u>930xxx-6109-001 Miscellaneous General Expenses $614</u>

The 2019 year-end total for the Miscellaneous General Expenses was verified to three individual general ledger accounts. Account 930102-6109-001, Licensing Fees, reported a year-end balance of $300; account 930200-6109-001, Public Relations, reported a year-end balance of $133; and account 930400-6109-001, Miscellaneous General Expense, reported a year-end balance of $181. The $614 combined balance on the three accounts, represents a 26% increase from the preceding year, due to improved public relations. Audit verified transactions on the Public Relations account, noting entries for postage, postcards, and other stationary supplies. The general ledger activity was also reviewed for the Licensing Fees and Miscellaneous General Expense accounts. Audit confirmed twelve debits on the Licensing Fees account, each in the amount of $25 for prepaid expense, as well as one transaction on the Miscellaneous account, totaling $101, for annual report filing fees. There was no significant change in the year-end balances on the accounts from 2018 to 2019.

950500-6109-001 Maintenance Computer Equip: PAC $0

Audit noted that, in addition to a 2019 year-end balance of $0 on the Computer Equipment Maintenance account, there was also no activity recorded to the general ledger. The $0 balance for the year represents a decrease of 100% from the preceding year-end balance. The Company stated that, *"Maintenance of Computer Equipment decreased 100% or $2,586 primarily due [to] less computer maintenance being complete in 2019 versus 2018."*

Inter-Divisional Management Fee $174,537 is comprised of the following:

As noted in the Allocation section of this report, included in the Filing, Tab 33, allocation factors related to PAC were reported to be as follows, which were verified to the identified general ledger accounts:

930500 Interco Mgmt Fee PCP	Allocation of Corporate Costs	$ 4,518
930510 Interco Mgmt Fee PWW	Allocation of Return on common Assets	$ 10,533
930510 Interco Mgmt Fee PWW	Allocation of PWW Work Order costs	$ 38,783
930510, Interco Mgmt Fee PWW	Allocation of Management Fee	$120,703
	Total Account 930510	$170,019

930500 Intercompany Management Fee: PCP $4,518

The 2019 year-end balance for the Intercompany Management Fee: PCP reflected the $4,518 of the total allocation from Pennichuck Corporation to all subsidiaries, $296,836. Audit reviewed the general ledger, noting monthly transactions to record the management fee from PCP. The PAC portion was recalculated without exception. Refer to the Allocation Factors portion of this report.

930510 Intercompany Management Fee: PWW $ 170,019

PWW reflected a year-end total of $170,019. Audit reviewed the general ledger, noting monthly transactions to record the management fee from PWW. The allocated portion was recalculated without exception. Refer to the Allocation Factors portion of this report.

Payroll

Pennichuck Corporation and subsidiaries do not have any employees of their own, rather, all employees are employed by PWW. The parent and other subsidiaries rely upon and utilize PWW's employees. Monthly intercompany transfers are performed to allocate the payroll costs to each subsidiary. Audit requested and was provided with the Union contract in place during the test year. The contract is summarized as follows:

A contract between Pennichuck Water Works, Inc. and United Steel Workers, AFL-CIO in behalf of Local Union 8938, effective November 1, 2017 through October 31, 2020 was reviewed. The contract is summarized, at a very high level, as:

- The contract applies to all employees of the Company except technicians, executives, office and clerical employees, and supervisors.
- Full-time employees work a regularly scheduled 40 hours per week, typically 8 hours per day.
- Departmental hours were generally outlined.
- Pay, overtime, shift differentials, etc. were included within the Contract.
- Wage increases are effective on January 1, following the 11/1/2017 date: 2.50% 1/1/2018; 3.00% 1/1/2019; and 3.45% 1/1/2020.
- Job descriptions and qualifications were included.
- Definitions and terms of leave, and to whom such leave is applicable.
- Specific reference to no strike and no lockout by or of employees due to the essential public service being provided.
- Inclusion of safety training, clothing, etc. as essential elements of each job.
- PWW bears cost of life insurance providing benefits of $100,000 per Union employee.
- PWW bears cost of dental insurance premiums, with coverage restrictions outlined.
- Group health insurance premium costs are shared as follows:

2018	employee contribution 18.0%	PWW 82.0%
2019	employee contribution 18.5%	PWW 81.5%
2020	employee contribution 19.0%	PWW 81.0%

- A Pension Plan for Employees of Pennichuck Corporation, effective 6/1/1956 incorporated into the Union agreement, as is the Savings Plan for Employees of Pennichuck Corporation (401k) effective 1984.
- Other specific topics.

Audit requested the Proliant payroll system totals page for the year ended 12/2019. The report included payroll and benefits for the 151 PWW employees, which summed to a total $9,902,018.58. The detailed reconciliation of the annual PWW payroll reflected:

	2019	Expenses YTD	
610200	Superintedence: WTP	$ 262,269.16	included in PWW's Management Fee Allocation (Workorder OH)
610300	Office Salaries: WTP	$ 330,772.41	included in PWW's Management Fee Allocation (Workorder OH)
642100	Purification Labor	$ 227,664.09	included in PWW's Management Fee Allocation (Workorder OH)
660000	Superintedence: OPS	$ 339,563.84	included in PWW's Management Fee Allocation (Workorder OH)
660300	Office Salaries: OPS	$ 115,210.22	included in PWW's Management Fee Allocation (Workorder OH)
673111	Union Clearing	$ 4,175,488.76	A portion of All Union Labor, is included in the Management Fee WO Allocation
660200	Salaries: Engineering	$ 1,207,888.66	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
920000	Salaries: Admin	$ 184,571.03	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
920001	Wages: Revenue & CS	$ 1,095,600.79	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
920002	Salaries: Accounting	$ 724,044.73	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
920003	Salaries: IS	$ 487,393.83	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
920004	Wages: PWS	$ 145,560.22	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
920100	Salaries: Officers	$ 499,166.87	included in PWW's Management Fee Allocation (PWW tab in Mgmt Fee)
926401	I-OPT	$ 25,675.32	see OH calc.for Union & Non-Union (2019 Benefit Summary Tab in Mgmt Fee)
TOTAL WAGES per PWW GL		$ 9,820,869.93	
	Week 52 Master Control	$ 9,902,018.58	
GL to Master Control Reconciliatio		$ (81,148.65)	
	TaxTuition	$ 4,771.16	
	TFB	$ 76,398.17	
	Variance	*$ 20.68*	

The "tax tuition" and "TFB", taxable fringe benefit figures were both noted on the Proliant report. Because they are not payroll, they were not included in the PWW payroll general ledger accounts above. They are on the PWW general ledger.

According to the Company: "*If an employee performs work for any entity the time is tracked using the workorder system in Synergen. The payroll is recorded in PWW as a debit to the labor clearing account (673111-2106-001), the labor related to workorders is a credit to the labor clearing account, with an offsetting debit to intercompany (PAC). This is recorded in Pittsfield as a debit to the expense account (624100,663100, etc.) and an offsetting credit to intercompany (PWW).*"

TAXES

Property Tax Expense

Audit verified the property taxes paid during the test year, $187,692, to the following:

2019 NH DRA Utility Property Tax	$19,254
½ of 2nd Issue 2018 Pittsfield	$42,524
Full 1st Issue 2019 Pittsfield	$84,940
½ of 2nd Issue 2019 Pittsfield	$40,974
Property tax expense	$187,692 verified to the general ledger 408110-6100-001

Audit also verified that the reported expense agrees with the filing schedule 1. The Annual Report reflects the sum of the Property Tax Expense above, plus $1,258 for the 2019 NH BET, posted to account 408.13, for a total of $188,950 for the 408 expense accounts. The Business Enterprise Tax booked to 408130 Other Taxes and Licenses, should have been booked to the state income tax expenses account 409113. **Audit Issue #7**

Based on a review of the invoices it appears the Company did not have any abatements during the test year. The Company was asked, and confirmed, that there were not any property tax abatements during the test year.

Prepaid Property Taxes

Audit calculated the prepaid property tax figure to be $40,974, which agrees with the general ledger account 6163-310-001, Prepaid Property Taxes. The PUC annual report and the filing schedule 2 reflect the prepaid tax figure to be $22,020. That figure is comprised of an asset and a liability account:

Asset	163310-6000-001 Prepaid Property Taxes	$40,974
Liability	236115-6000-001 Local Property Tax Payable	0
	Net Prepaid Tax	$40,974

Audit requested clarification of the Local Property Tax Payable account as to how the figure is calculated. The Company provided the following: "*The Company books property taxes on a monthly basis for both local property taxes and state utility taxes. The local property taxes are based on the last year's full year tax amount (the amount reflected on the 12/1 bills each year for the full year), by dividing that amount by 12 and recording it to expense. The offset is either Local Property Taxes Payable or Prepaid Property Taxes, depending on the month of the year. As the property tax year runs from April 1 to March 31 each year, but semi-annual payments are due on 7/1 and 12/1 each year, a portion of the year we are prepaid on local property taxes, and a portion of the year we are accruing taxes that will be due and payable at the next billing date.*

With regard to state utility taxes, the Company utilizes the tax amount from the previous year's appraisal valuation from the NHDRA, plus an estimated factor for additions to be included in the current year's appraisal (which is received on December 15^{th} of each year). This is done so that the monthly accrued amount is level loaded within the year, and the "true up" required to the actual calculated valuation from the NHDRA received just before year-end, is minimized. Without doing this, the month of December would include 100% of the valuation increases each year, which are actually earned throughout the year. As State Utility Taxes have quarterly estimated payments due, they are always in an accrued taxes position, unlike the local property taxes".

Federal and State Tax Returns

Audit requested and was provided with the external accountant's tax worksheet that provided the basis for the federal tax return. There were no exceptions noted.

Audit reviewed the 2018 and 2019 Federal form 1120, filed at the Pennichuck Corporation level. Schedule M identified information at the subsidiary level, which Audit reviewed and verified to the general ledger. There was a ($113,901) net loss on the 2018 federal return and 2018 Annual Report. There was $6,066 in net income on the 2019 federal return and 2019 Annual Report. PAC indicated they did not have a tax sharing/allocation agreement with Pennichuck Corporation and that taxes for each entity are calculated separately. Audit verified the federal tax forms and the expenses associated with it to the general ledger.

Audit reviewed the 2018 and 2019 NH Business Profits Tax Returns that is paid at the Pennichuck Corporation level. The State of NH Business Profits tax form does not exactly replicate the information noted on the Federal form, due to the temporary and permanent differences between book and tax information on the federal form. The 2019 NH Business Profits Tax rate was 7.7%. The NH Business Enterprise Tax was paid at the Pennichuck Corporate level because the tax return is a joint unitary return. The Company indicated they allocated and paid $1,258 in BET in 2019. The NHBET was 0.60 for December 2019 year-end. Audit verified the State tax form and the expenses associated with it to the general ledger.

Audit verified the Deferred Income tax total of ($4,823,913) to the tax worksheet, which reflected a total of $711,572 for PAC. That figure was verified to two general ledger accounts to Filing Schedule 2A and the Annual Report:

282200-6000-001 Deferred Income Taxes	$510,355
283100 -6000-001 ADIT-Regulatory Liab.	$ 201,217
	$711,572

The Provisions for Income Taxes and Other Taxes was verified to the tax worksheets on the returns as well as the Filing Schedule 1, the 2019 Annual Report, and the following accounts:

409102-6100-001 Provision for Fed Inc Tax Current	$8,125
409113-6100-001 Provision for NHBPT Current	2,114
410102-6100-001 Provision for Fed Inc Tax Deferred	3,468
410113-6100-001 Provision for NHBPT Deferred	(178)
Total Income Tax per Annual Report	$13,529
408130-6100-001 Other Taxes	1,258
Total per Filing Schedule 1	$14,787

The Income Tax Expense summed to $14,787 on Filing Schedule 1 and $13,529 on the 2019 Annual Report. The reason for the $1,258 difference is the 2019 NH Business Enterprise Tax the Company booked to account 408103 Other Taxes and Licenses when it should have been booked to account 409110 State Income Taxes Utility Operating Income. **Audit Issue #7**

Audit Issue #1

Allocation of Supplemental Executive Retirement Plan Costs

Background

Within the Management Fee Allocation, costs incurred at the Pennichuck Water Works and Pennichuck Corporate level are allocated based on Assets, Work Orders, Work Order Overheads, Return on Common Assets, Benefits Summaries.

Issue

Within the Return on Assets calculation, Tier 1, which spreads allocated costs to regulated entities and non-regulated entities was included $38,030 of Deferred Supplemental Executive Retirement Plan costs. These supplemental expenses and related deferrals and accruals should not be borne by ratepayers.

Recommendation

The Company should recalculate the allocations, excluding the Supplemental Executive Retirement Plan costs, and adjust the filing as appropriate.

Company Response

Consistent with the accounting methodology used in Pennichuck Water Works accounting and also disclosed to the NHPUC Staff, the Company respectfully disagrees with Audit's assertion of the Supplemental Executive Retirement Plan (SERP) exclusion from the allocable expenses as it is a contractual obligation that has been in existence on the Company's books and records since its inception in 1995, and is a component of the overall costs of compensation and benefits allocable, as such.

Audit Conclusion

Audit appreciates the reference to the PWW case, and reminds the reader that in recent electric utility rate cases and gas rate cases, such supplemental benefits have been excluded from amounts paid by ratepayers.

Audit Issue #2

Bid Results Not Provided

Background

On November 20th, 2020 Audit Request #15 inquired about the Company requisition policy and a list of project bid winners that were selected.

Issue

The Company, on January 14, 2021, responded to the portion of the Audit Request that related to the Company requisition policy, stating that projects go out to bid over $10,000 and indicated there are a few exceptions to the rule.

The Company did not answer the portion of the request that related to a list of bid winners or why they were selected.

Recommendation

The Company going forward should answer Audit requests in a more timely manner and answer the entirety of the request, such as providing a list of bid winners and why they were selected.

When the DRAFT version of this report was issued to PAC, on January 13, 2021, the Company was informed that any open Audit Request would become an issue in and of itself.

With the response to the DRAFT report, the Company did not provide further information regarding winning bidders.

Audit Issue #3

Construction Budgets Not Filed with Commission

Background

The Company did not file Construction Budget with the New Hampshire Public Utilities Commission as required under PUC 609.12 rules.

Issue

The Company, in response to an Audit request, indicated that since the DW 13-128 rate case, they have only filed one E-22, Report of Proposed Expenditures for Additions, Extensions, and Capital Improvements to Fixed Capital, for the Broadway St. Main replacement project. Based on the PUC 609.12 (j)(2) Rules the Company is able to use construction budgets in place of E-22's, as long as they are filed with the Commission. The Company never filed the construction budgets with the Commission.

Recommendation

The Company going forward must comply with PUC 609.12 rules and file E-22 or Construction Budgets with the Commission.

Company Response

The company agrees and will comply with PUC 609.12 rules and file E-22 or Construction Budgets with the Commission for any amount over $30,000.

Audit Conclusion

Audit concurs with the Company Response. Subsequent to the Company Response, the Company provided E-22s for the Berry Pond dam removal (2012), Joy Street Water Main Replacement (2010), Catamount Road (2017), and the Fairview Street water main (2015), which had been filed directly with the then PUC Water Engineer. The present process is to have all E-22s filed electronically by the Chief Operating Officer, directly to the NHPUC email of the Assistant Director of the Gas/Water Division, Jayson Laflamme. PUC Audit will communicate with Mr. Laflamme about ensuring the E-22s are filed in a common location, such as the efiling location within the PUC "Q" directory.

Audit Issue #4

CIAC Overstated on Filing Schedule 2C

Background

The Company included the Contributions in Aid of Construction and related Accumulated Amortization within the Filing on Schedule 2A, page 257, and in more detail on Schedule 2, Attachment C on page 263.

Issue

271200-6000-001 CIAC	$750,287	
271201-6000-001 CIAC-Water Filtration. Grant.	$398,350	
Total	$1,148,636	page 263
272101-6000-001 Amortization of CIAC	($497,793)	
Total Net CIAC per Schedule 2A BS	$650,844	page 257
Total CIAC per Filing Schedule 2C	$652,759	page 263
Variance between Filing Schedule 2A BS and 2C	$1,915	

The account # 272101-6000-001 – Reserve for Amortization of CIAC for the test-year 2019 totaled $497,793 on the general ledger and agrees with the Annual Report and Filing Schedule 2A. The Filing Schedule 2C, page 263, that shows the Amortization of CIAC is overstated by $1,915 and should be adjusted. That figure reflects ($495,877).

Recommendation

The Company should reduce the Amortization of CIAC on Filing Schedule 2C by $1,915 to $497,793, and also the Grand Total of CIAC to $650,844.

Company Response

The Company agrees and will adjust the schedules.

Audit Conclusion

Audit concurs with the Company Response.

Audit Issue #5

ARRA Loan Forgiveness should be CIAC

Background

The Company received loan from the American Recovery and Reinvestment Act that includes a loan forgiveness component.

Issue

On the F-52 on the 2019 Annual Report, it indicates the Company received $1,430 in American Recovery and Reinvestment Act loan forgiveness for the Catamount Rd SRF loan they borrowed, that was booked to account # 414000-6000-001, Gain from Forgiveness SRF Debt. This should be considered a Contribution in Aid of Construction.

Recommendation

The Company should book the $1,430 Catamount Rd. ARRA loan forgiveness as a Contribution in Aid of Construction.

Company Response

As accurately restated in the PUC's Audit Recommendation above, SRF funding is a "forgivable" transaction, earned monthly with each loan payment made, which can be rescinded in the event of default on the loan. The "forgiven" principal portion is ratably applied by the Department of Environmental Services "DES", upon each and every scheduled principal payment on that instrument. Additionally, any previously forgiven and unforgiven principal and interest amounts, becomes immediately due and payable to the DES in the event of default by the Company as described in the associated loan agreement. Therefore, it is the Company's assertion that any current and previously ***forgiven principal amount cannot be classified as CIAC, if the benefit is revocable*** at a future point in time.

Also per the PWW Rate Case (DW 19-084 and DW 20-055), section 5, reads as follows: (2) allow PWW to continue its accounting methodology for the principal forgiveness on the Drinking Water State Revolving Fund loans;

Audit Conclusion

Audit appreciates the reference to the settlement in the PWW rate case. However, the Water Chart of Accounts requires that plant paid by others, in this case, the State Revolving Loan Fund, should be booked as CIAC.

Audit Issue #6

Short-Term Debt Requirements

Background

Audit noted that the two intercompany accounts 233, Accounts Payable to Associated Companies, with individual balances of $(1,719) and $(12,955), totaled $(14,674) and were properly reported on page 17 of the annual report as Accounts Payable to Associated Co.

Issue

The filing schedule 2A included the $(14,674) total, for both of the 233 accounts, within the Advances from Associated Companies long term debt account 223 total of $(1,162,402); thereby, rolling the current liability balance from the intercompany Accounts Payable to Associated Co. (233) accounts into the long term debt balance of the Advances from Associated Co. (223).

Recommendation

The 2019 current liability balance of $(14,674), from the intercompany Accounts Payable to Associated Co. (233), should not be included within the long-term debt balance of the Advances from Associated Co. (223), as is currently reported on Schedule 2A of the filing.

Company Response

The Company agrees and will make the adjustments to Schedule 2A of the filing.

Audit Conclusion

Audit concurs with the Company Response.

Audit Issue #7
Incorrect State Income Taxes Account

Background

The Company booked the 2019 NH Business Enterprise Tax expense account # 408130 Other Taxes and Licenses.

Issue

The Company booked $1,258 in 2019 New Hampshire Business Enterprise Tax to account # 408130-6100-001 Other Taxes and Licenses, when the expense should have been booked to the 409110 State Income Taxes, Utility Operating Income expense account.

Recommendation

The Company going forward should book the NH Business Enterprise Tax expense to the correct 409110 State Income Taxes expense account on the GL and annual reports.

Company Comment

The Company respectfully disagrees with Audit's recommendation to book the NH Business Enterprise Tax expense to GL account 409110 State Income Taxes expense. This tax is paid based on the company's compensation, interest and dividends, as this is not related to income tax, it should remain in 408130 Other Taxes and Licenses.

Audit Conclusion

Based on a review of the Department of Revenue Administration's information regarding the Business Enterprise Tax, as well as the Water Uniform System of Accounts, Audit concurs with the Company, and agrees that inclusion of the NH BET in account 408130, Other Taxes and Licenses, is appropriate.

Audit Issue #8

Non-Recurring Maintenance Costs

Background

The $7,011 total for the Maintenance of Water Treatment Equipment (account 652) reported an increase of 51%, or $2,359, over the 2018 year-end balance. The Company explained that, *"[The increase was due to] the need to add monitoring equipment and reprogram the SCADA system associated with an alarm required for compliance with the Enhanced surface water treatment rule that occurred in 219 but did not happen in 2018."*

Issue

Audit reviewed invoices for maintenance of water treatment equipment expenses, totaling $2,352, and understands that the expenses were necessary for compliance with the enhanced surface water treatment rule. However, Audit notes that the costs should be considered non-recurring, going forward.

Recommendation

Audit recommends that the $131,316 of Production Expenses, reported on Schedule 1 of the filing, be adjusted to reflect the reduction of the $2,352 in Maintenance of Water Treatment Equipment (account 652) costs associated with the upgrade to add monitoring equipment and reprogram the SCADA system.

Company Response

The Company agrees and will make the adjustments to Schedule 1 of the filing.

Audit Conclusion

Audit concurs with the Company Response.