

STATE OF NEW HAMPSHIRE
Intra-Department Communication

DATE: August 1, 2022

FROM: Bridget Heffernan, Division of Enforcement, Audit Staff

SUBJECT: Liberty Utilities (EnergyNorth Natural Gas) Corp.
DG 22-028, Step Adjustment for Assets in Service 2021
Final Audit Report

TO: Tom Frantz, Director, Regulatory Division
Deen Arif, Director, Gas Division
Paul Kasper, Director, Enforcement Division
Paul Dexter, Hearings Examiner

Introduction

In Docket DG 22-028, Liberty Utilities (EnergyNorth Natural Gas) Corp, filed a request for approval of a distribution rate increase of \$3.2 million, effective August 1, 2022, for the recovery of \$28,177,868 of capital assets placed into service during 2021.

Order 26,505, issued July 30, 2021, in Docket DG 20-105, approved the Settlement Agreement which included two step increases; one for projects placed into service in 2020 and one for capital assets placed into service in 2021. The second step adjustment, for certain capital projects placed into service during 2021, was to be effective August 1, 2022, and capped at \$3.2 million annual increase to distribution revenue.

The Settlement Agreement also approved the recovery of Phase I costs of the Keene Conversion to Compressed Natural Gas (CNG). The Company may seek recovery of the cost of the Production Avenue land at a future time.

Appendix 2, page 1, of the Settlement Agreement approved in Docket DG 20-105 estimated the non-growth projects placed in-service during 2021 to be:

Leak Repairs	\$ 1,750,000
LPP – City/State	\$23,050,010
Aldyl-A Replacement	\$ 200,000
K Meter Replacement Program	\$ 350,000
Main Replacement Reactive	\$ 600,000
Dresser Coupling Replacement	\$ 500,000
Gas System Planning & Reliability	<u>\$ 2,900,000</u>
	\$29,350,010

Appendix 2, page 2, estimated the projects to be booked to the following general ledger accounts:

FERC 367 Mains	\$28,500,010
FERC 376 Mains	\$ 500,000
FERC 381 Meters	<u>\$ 350,000</u>
	\$29,350,010

The Direct Testimony of Catherine A. McNamara, Erica L. Menard, Robert A. Mostone, and Bradford Marx, in DG 22-028 Attachment 1, page 1, notes \$28,177,867 in capital assets were placed into service during 2021.

<u>Attachment</u>	<u>Project Number</u>	<u>Project Name</u>	<u>Priority</u>	<u>In Service \$\$</u>	<u>In Service Date</u>	<u>FERC</u>
2	8840-2011	Main Replacement LPP-Restoration	2. Mandated	\$ 2,045,660.95	various	367
3	8840-2024	Nashua Paving	5. Discretionary	\$ 531,718.59	various	367
4	8840-2102	Meter Protection Program	2. Mandated	\$ 484,377.56	12/31/2021	381
5	8840-2103	Cathodic Protection Program	2. Mandated	\$ 511,290.52	12/31/2021	376
6	8840-2105	Replacement Services Random	2. Mandated	\$ 605,038.33	various	380
7	8840-2110	Leak Repairs	2. Mandated	\$ 1,325,263.84	12/31/2021	367
8	8840-2111	Main Replacement LPP	2. Mandated	\$ 8,128,527.75	various	367
9	8840-2113	Main Replacement Fitting LPP	5. Discretionary	\$ 560,974.62	12/31/2021	367
10	8840-2114	k Meter Replacement Program	5. Discretionary	\$ 380,281.58	12/31/2021	381
11	8840-2115	Aldyl-A Replacement Program	5. Discretionary	\$ 110,184.07	10/11/2021	367
12	8840-2116	Main Replacement Reactive	5. Discretionary	\$ 350,593.36	various	367
13	8840-2118	Purchase Misc Capital Equipment & Tools	1. Safety	\$ 247,678.76	12/31/2021	394
14	8840-2123	Main Replacement City/State Construction	2. Mandated	\$ 7,864,635.64	various	367
15	8840-2125	Service Replacement Fitting City/State Construction	2. Mandated	\$ 549,782.02	12/31/2021	367
16	8840-2131	Gas System Planning & Reliability	5. Discretionary	\$ 959,389.01	various	367
17	8840-2138	IT	5. Discretionary	\$ 351,408.12	12/31/2021	303
18	8840-2190	Transportation	5. Discretionary	\$ 970,392.57	12/31/2021	392
19	8840-2191	Meters	2. Mandated	\$ 1,541,057.32	various	381
20	8843-1819	Keene Expansion CNG Phase I Expansion	5. Discretionary	<u>\$ 659,613.20</u>	7/11/1905	367
				\$ 28,177,867.81		

Appendix 2 of the Settlement Agreement lists LPP-City/State project with a \$23,050,010 budget. Five 2021 projects were covered under this category:

8840-2011 Main Replacement LPP – Restoration	\$ 2,045,660.95
8840-2111 Main Replacement LPP	\$ 8,123,527.75
8840-2113 Main Replacement Fitting LPP	\$ 560,974.62
8840-2123 Main Replacement City/State	\$ 7,864,635.64
8840-2125 Service Replacement Fitting City/State	<u>\$ 549,782.02</u>
	\$19,144,580.98

The difference between the Settlement Agreement budget and the actual spend is \$3,905,429.02.

The Settlement Agreement approved in Docket DG 20-105 allowed the Company to “substitute other similar non-growth projects prior to the commencement of the review period if projects identified in Appendix 2 are not deployed”.

The Dresser Coupling Replacement project, with a \$500,000 budget, is not part of the step 2 filing. Liberty used the \$500,000 Dresser budget and the underspent \$3.9 million of the LPP – City/State budget and added the following replacement projects:

8840-2024 Nashua Paving	\$ 531,718.59
8840-2102 Meter Protection Program	\$ 484,377.56
8840-2103 Cathodic Protection Program	\$ 511,290.52
8840-2105 Replacement Services Random	\$ 605,038.33
8840-2118 Purchase Misc. Capital Equip & Tools	\$ 247,678.76
8840-2138 IT	\$ 351,408.12
8840-2190 Transportation	\$ 970,392.57
8840-2191 Meters	<u>\$1,541,057.32</u>
	\$5,242,961.77

Documentation required for project types, according to the “Liberty Way Policy and Procedures Capital Expenditures Planning and Management” document, dated 10/23/2018, includes, among other things, the following high level summary, Table 1 (CPE stands for Capital Project Expenditure form):

Category	Amount	CPE	Business Case	Project Close-out Report	Over-expenditure Application
Safety & Mandated	All amounts	Required	N/A	Required	When necessary
Growth, Regulatory Supported, Discretionary	<\$100,000	Required	N/A	Required	When necessary
Growth, Regulatory Supported, Discretionary	>\$100,000	Required (Cost Sections not required)	Required	Required	When necessary

Audit reviewed all information provided in the filed Direct Testimony of McNamara, Menard, Mostone and Marx. Results are included in each project’s section below.

Accounting Dates and Postings- In Service vs. Closed to Plant

Audit had prior communication with Liberty regarding the manner of determining “in-service” vs. “closed to Utility Plant account 101”.

Projects are comprised of anywhere from one to several hundred specific jobs. As each Job is completed and “in-service”, spreadsheets provided to Audit typically reference “Actual Completion Date”. That heading indicates the date on which the job was booked to account 106, Completed not Classified. If Plant Accounting or Operations anticipates additional vouchers, or other costs that may be booked to the individual job, the posting to account 106 becomes an automatically reversing journal entry which moves the project out of the CWIP (8843 Keene) ENG 8840-2-0000-10-1618-1070 account into Completed Construction not Classified, (8843 Keene) ENG 8840-2-0000-10-1615-1060 account at month end, then reverses on the first of the following month. System limitations do not allow late vouchers, etc. to post to the 1060 account, so jobs must be transferred back to the 1070 account. Department of Energy Audit and Staff and Liberty have discussed this problem extensively, and understand that the IT system in place requires projects remain in CWIP until all accrued invoices and/or adjusting entries are received and posted. The movement between 106 and 107 ensures that monthly calculation of AFUDC ceases.

Spreadsheets that include a “Transfer to Plant” column indicate the date when the job is credited out of account 1060 (or 1070 as appropriate) and debited to account 1010, Utility Plant in Service. This indicates that the individual job is literally closed to all charges, therefore should be moved out of “In-Service” to “Closed to Plant”.

In both instances, if there is a date of 1/1/1900, or N/A, the job is not in service.

Allocations

Throughout the ten projects reviewed, certain allocations were noted. The Stores burden, identified as 8840STO or 8843STO, was reported to allocate overhead charges from warehouse storage based on material charges to open Construction Work in Progress projects. Audit requested and was provided the calculations for Project 8840-2110. The related journal entry posted both the debit and credit portions of the entry to account 8840-2-0000-10-1618-1070. Clarification of the entry was requested. The stores overhead is initially booked to a job in CWIP identified as 8840-STO. The next month a journal entry moves the calculations out of the 8840-STO job into the specific project job codes, all within CWIP.

The NH Management burden, identified as 8840-LAB, 8843-LAB, 8840-LU, and 8843-LU, also tested in Project 8840-2110 is representative of the LAB charges (field labor, payroll accruals, bonus accruals based on labor as directly charged) and LU overheads which represent the Oakville corporate costs allocated among affiliates and subsidiaries. As with the Stores allocation, the Management burden is booked to a job in CWIP and the following month credited out of the MNGT job and debited across the specific project job codes, all within CWIP.

The Labor Burden, or BRD, also tested in Project 8840-2110 represents charges related to labor, capitalized out of operations and maintenance, based on an annual calculated percentage. The calculation also includes capitalization the monthly fleet depreciation expense of grouped asset 8840-3920, multiplied by the quarterly fleet depreciation rate. The capitalization of fleet depreciation has been an ongoing discussion between the Department and Liberty. In the 7/22/2022 hearing in Docket DE 21-073, the Public Utilities Commission agreed to have it reviewed as part of the next general rate case.

Audit previously requested clarification of why any overheads would post to CWIP jobs closed to account 106, and was informed that the Company considers projects “closed” only when the project is booked to Utility Plant in Service account 101, not 106 Completed not Classified, when the individual jobs are in-service. Refer to the Accounting Dates and Postings- In Service vs. Closed to Plant section of this report.

Cost Elements

Liberty posts activity to the general ledger accounts using cost elements indicating the specific type of cost. Identified by the Accounting department at Liberty, the cost elements are:

- 1-Labor
- 2-Materials
- 3-Transfer to 106 or Plant
- 4-Vouchers
- 5-Outside Services
- 6-Burden
- 7-Cost of Removal
- 8-CIAC Payments
- 9-AFUDC

Non-growth Project 8840-2011 Main Replacement LPP-Restoration

Budget	\$4,069,903
Actual	<u>\$2,860,902</u> 70% of original budget
Difference	\$1,209,001

The in service amount noted on Attachment 1 in the filing is \$2,045,660.95. Bates page 009 in the Direct Testimony of McNamara, Menard, Mostone and Marx provide the following explanation as to why the project close out reports and the in service amount included in the filing differ.

“Project close out forms are completed on an annual basis and address only the spending for that project for that calendar year. Therefore, when a project incurs costs during more than one calendar year, its costs will be reflected in more than one project close out form.

This annual process occurs because all ongoing projects received a new project number each year, using the Company’s established naming convention. For example, a project opened in 2020 and named “8840-20xx XYZ Main Replacement” will receive a new project number in 2021 of “8840-21xx XYZ Main Replacement” for that same mains replacement project. Each

year the Company will prepare a project close out from for every open project number that addresses all costs incurred during that calendar year until a project is completed and put into service. Then, when calculating the full cost of a project to support a request for recovery, the Company will draw from all the applicable annual close out forms.

Therefore, the total amount reflected in a single year's project close out form may not match the amount for which the Company ultimately seeks recovery."

Per the filed testimony on Bates page 014 "This project blanket covers restoration paving for main replacement jobs completed by EnergyNorth late in the 2020 construction season, too late for final restoration of the jobs to be performed by the end of 2020, therefore the work was completed in 2021. This restoration is done by approved contractors in conjunction with city timing and permit conditions".

Also, the filed testimony on Bates page 014 noted the following regarding the actual costs of the project:

"In 2021, due in part to COVID-19 related challenges and restrictions, the volume of construction work completed was less than anticipated, resulting in less paving needing to be completed from 2020 construction in the 2021 season.

Also, for several jobs in the City of Nashua which had been included in the original budget for this project, EnergyNorth provided a contribution to the City towards the final restoration of the entire street from curb to curb. These contributions were charged to the 2020 budget and resulted in a net savings for the Company, enabling a city paving contractor to cover EnergyNorth's restoration via curb-to-curb paving of these streets instead of the Company using a contractor to restore the gas trenches and patches only."

Attachment 2: 8840-2011-Main Replacement LPP-Restoration

- a. Capex Form
- b. Change Order – N/A
- c. Project Closeout Report

The Capex, Capital Project Expenditure Form, for the period 1/17/2021 through 12/31/2021 reflected the budget figure of \$4,069,903, and indicated the project type to be "Safety", rather than "Mandated" as noted in Attachment 1. Neither type of project requires a Business Case. The Capex Form indicates the project was planned and described it as restoration paving for main replacement jobs completed in 2020 construction year. There were no identified retirements associated with the paving work. The authorizations included:

Senior Director/Director	up to \$250,000	signed by Charles Rodrigues	01/26/21
Senior VP/VP	up to \$500,000	signed by Richard MacDonald	02/09/21
State President	up to \$500,000	signed by Susan Fleck	02/17/21
Regional President	up to \$3,000,000	signed by James Sweeney	03/02/21
Corporate-Sr. VP Operations	up to \$5,000,000	no signature	

As the budget amount was over \$3 million, an approval is required from Corporate. This signature was not included on the actual Capex Form but was approved in an email

correspondence. The email was provided to Audit which showed Gerald Tremblay, Senior Vice President of Operations at Liberty, approving the project and budget on March 2, 2021.

There was no Change Order Form required for Project 8840-2011 as the project was under budget.

A Project Close-out Report was included as Attachment 2.c. The report provided was not dated, did not note the project status, and was not signed by either the Project Lead or Project Sponsor. Audit requested a signed copy of the report and Liberty provided one with the following signatures:

Project Lead	Bradford Marx	03/30/2022
Project Sponsor	Robert Mostone	04/01/2022

The final page of the Close Out report notes the budget amount of \$4,069,903, actual expenses of \$2,860,902, resulting in a \$1,208,983 variance. Audit notes the actual variance amount should be stated as \$1,209,001.

The total in service amount for 2021 as noted in Attachment 1 in the filing is \$2,045,660.95.

Audit requested a listing of the workorders that support the total project and was provided with Excel data showing one work order, 402011.

Work order 402011 was supported with a pivot of 169 specific jobs, spread across five cost elements reflected in 1,149 entries to 8840-2-0000-10-1618-1070, Construction Work in Progress (CWIP).

Audit selected three invoices from the supporting Excel file to review in detail. The first invoice was from work order 402011-37614 in the amount of \$155,976.41. Audit reviewed the invoice dated 11/30/2020 for services performed from July 2020 through November 2020. The invoice noted the hours worked per day and the hourly rate. The invoice also included costs of material and supplies used for the job. Support provided with the invoice includes "Main Field Record" which notes the material, footage and size of pipe installed. It also notes main abandonment information such as soil condition, type of pipe, etc.

Audit questioned the 2020 dates on this invoice and Liberty provided the following response : *"These are charges we incurred in 2021 for restoration of the 2020 work orders. We do the main replacements, then pave the next year and complete any other restoration in the next year. All of the charges are the costs incurred for restoration of the sites in 2021"*. Audit reviewed the journal entries closing the project to plant in service and notes this was completed on 3/30/2021 and 6/27/2021.

The second invoice reviewed was for work order 402011-37616 in the amount of \$186,430.70. The invoice was dated 6/28/2021 for services provided from April 2021 through June 2021. Supporting documentation provided with the invoice included Daily Change Orders,

restoration sheets, and concrete invoices billed to the contractor and included in the total charge to Liberty. The restoration sheets include the location of work and the length of the pipe.

Non-growth Project 8840-2024 Nashua Paving

Budget	\$760,000
Actual	<u>\$550,728</u> 72% of original budget
Difference	\$209,272

The in service amount noted in Attachment 1 of the filing is \$531,718.59

The filed testimony on Bates 015 notes the following regarding the project:

“This project blanket was created to allow the resurfacing of the Company’s property at 38 Bridget Street in Nashua. This property contains natural gas regulation and propane production infrastructure utilized for the local gas system and is the reporting location for many EnergyNorth employees. The prior condition of the yard featured broken asphalt and incorrect pitching. For this paving restoration project, all the existing pavement throughout the yard was to be removed. An environmental cap was installed over the contaminated section of land on the property, which had been mandated by the New Hampshire Department of Environmental Services (NHDES). The yard received fresh pavement, which expanded into previously unpaved areas and included paving over the environmental cap to address NHDES requirements.

The overall costs for the blanket project came in under budget because certain planned jobs were not completed in 2021 and will extend into 2022.”

Audit selected the Nashua Paving project to review in detail and requested additional information from the Company. Liberty responded to Audit with the following:

“In reviewing the info for Nashua Paving 8840-2024, we found that the project is not in service at this time. We will remove the project from the request for recovery, though the removal does not change the revenue requirement request of \$3,200,000 as we filed a revenue requirement of \$3,412,990 which is capped at that \$3.2m.”

Audit did not perform any audit work on the Nashua Paving project.

Please refer to the Conclusion of this audit report.

Non-growth Project 8840-2102 Meter Protection Program

Budget	\$500,000
Actual	<u>\$642,535</u> 128% of original Capital Project Expenditure Form
Actual minus budget	\$142,535

The in service amount noted in Attachment 1 of the filing is \$484,377.56

The filed testimony on Bates page 015 noted *“this project blanket covers the protection of customer meter sets, including both residential and commercial customers. The primary*

driver for the protection programs is to preserve customer meters sets that are at risk of being hit by vehicles, which can lead to equipment damage and potentially hazardous leaks.”

Regarding the budget and actual costs spent, the testimony on Bates 015 states, *“The budgeted cost for this project was \$500,000. Due to underruns on other projects within the Company’s capital program, there was funding available to complete additional meter protection work in 2021. A change order was approved and issued to increase this project’s budget to \$700,000, and the actual amount spent was \$642,535.*

Puc 505.01(c) states: *“Meter installations shall be protected from anticipated or potential dangers, including but not limited to vehicles, ice, snow, flooding, or corrosion.”* In addition, Puc 506.01(a) incorporates 49 CFR Parts 191, 192, 193, 198 and 199. 49 CFR 192.353(a) *“Each meter and service regulator, whether inside or outside a building, must be installed in a readily accessible location and be protected from corrosion and other damage, including, if installed outside a building, vehicular damage that may be anticipated. However, the upstream regulator in a series may be buried.”* **Audit Issue #1**

This project was noted by the Company to be a mandated capital project, and as such, does not require a Business Case to document the expenditure.

Attachment 4: 8840-2102 – Meter Protection Program

- a. Capex Form
- b. Change Order
- c. Project Closeout Report

The Capex, for the period 1/1/2021 through 12/31/2021 reflected the budget figure of \$500,000, and indicated the project type to be Mandated. There were no reported retirements, as the project was noted to eliminate the exposure risk to meters exposed to weather or vehicles damaging the meters. The authorizations included:

Senior Director/Director	up to \$250,000	signed by R. Mostone	02/09/2021
Senior VP/VP	up to \$500,000	signed by R. MacDonald	02/11/2021
State President	up to \$500,000	signed by S. Fleck	02/12/2021

The first Change Order Form, dated 11/22/21 reflected a change in scope, increasing the project cost by \$200,000 up to a total of \$700,000. The scope change was a result of other EnergyNorth project underruns leaving funds available in the Liberty Capital Portfolio to complete additional meter protection work. Authorizations on the Change Order Form were noted:

Senior Director/Director	up to \$250,000	signed by R. Mostone, Gas Ops	11/23/21
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A Project Close-out Report was not dated but did note the project was completed 12/31/2021. The project summary notes the budget as \$500,000 with actual expenses totaling \$642,535 and a variance of \$142,535 as supported by Change Order #1. The Project Closeout report was signed by Robert Mostone, Project Lead on 02/08/2022 and Richard MacDonald, Project Sponsor, on 03/08/2022.

The report references the original requested capital of \$500,000, indicates that the project is in service and approved by the Project Lead and Project Sponsor, signed on 2/8/2022 and 3/8/2022, respectively. Signatures accept that the assets should be moved from CWIP 107 to Utility Plant in Service account 101. The final page of the Project Closeout Report shows the original \$500,000 estimate, actual expenses of \$642,535, with the difference of \$142,535 supported by change order #1.

Audit requested project detail in which the Company provided an Excel spreadsheet. There was one job and 655 entries to CWIP. The following is a break down of the CWIP entries:

<u>Job Number</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402102-38101	\$ 157,072.94	\$ 2,139.76	\$ 70,050.47	\$ 255,114.39	\$ 484,377.56

Non-growth Project 8840-2103 Cathodic Protection Program

Budget \$500,000
 Actual \$552,162 110% of budget
 Actual minus budget \$ 52,162

The in service amount noted in Attachment 1 of the filing is \$511,290.52

Per the filed testimony on Bates page 016; *“The Cathodic Protection Program blanket provides funding necessary to complete capital projects required to maintain and operate the cathodic protection system in accordance with federal regulations, 42 C.F.R. Part 192, Subpart I, Requirements for Corrosion Control. Capital projects included new and replacement test stations, new and replacement rectifiers, the installation of bond wires, recoating of pipes, the installation of insulators, and other capital work required to maintain the cathodic protection system.”*

Also noted on Bates page 016, *“The budgeted cost for this project was \$500,000. Due to underruns on other projects within the Company’s capital program, there was funding available to complete additional cathodic protection work in 2021. A change order was approved and issued to increase this project’s budget to \$650,000, and the actual amount spent was \$552,162.”*

This project was noted by the Company to be a mandated capital project, and as such, does not require a Business Case to document the expenditure.

Attachment 5: 8840-2103 – Cathodic Protection Program

- a. Capex Form
- b. Change Order
- c. Project Closeout Report

The Capex Form indicates a planned mandated project. The request was dated 12/21/2020 for a period of 1/1/2021 through 12/31/2021 and requested capital of \$500,000. The description for the blanket project *“provides funding necessary to complete capital projects*

required to maintain and operate the cathodic protection system in accordance with Part 192, Subpart I, Requirements for Corrosion Control”.

Senior Manager	up to \$50,000	signed by A. Bernier	12/21/2020
Senior Director/Director	up to \$250,000	signed by R. Mostone	01/12/2021
Senior VP/VP	up to \$500,000	signed by R. MacDonald	01/14/2021
State President	up to \$500,000	signed by S. Fleck	01/15/2021

A Change Order Form dated 12/22/21 reflected a revision to the budget increasing it by \$150,000 up to a new forecast of \$650,000. The increase was noted to be “*due to other underrun in other EN capital projects allowance to add additional work to blanket.*” Authorizing signatures were documented as:

Senior Director/Director	up to \$250,000	C.Rodrigues	12/22/2021
State President/Senior VP	up to \$500,000	R. MacDonald	12/23/2021
Regional President	up to \$3,000,000	J. Sweeney	12/23/2021

A Project Closeout Report was dated 2/8/22 and noted the project was in service. The project summary notes the budget as \$500,000 with actual expenses totaling \$552,162 and a variance of \$52,162 as supported by Change Order #1. The Project Closeout report was signed by Deborah Regis, Project Lead on 02/08/2022 and Bradford Marx, Project Sponsor, on 02/09/2022.

Audit requested and received the work order detail for this project. This included 442 entries to CWIP and specifically:

<u>Job Number</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402103-37601	\$ 50,288.79	\$ 5,110.69	\$ 265,308.85	\$ 171,078.43	\$ 491,786.76
402103-38001	\$ 5,625.50	\$ 264.36	\$ 4,193.02	\$ 9,420.88	\$ 19,503.76
Grand Total	\$ 55,914.29	\$ 5,375.05	\$ 269,501.87	\$ 180,499.31	\$ 511,290.52

Non-growth Project 8840-2105 Replacement Services Random

Budget	\$550,000
Actual	<u>\$645,720</u> 117% of budget
Actual minus budget	\$ 95,720

The in service amount noted on Attachment 1 of the filing is \$605,038.33

Per the filed testimony on Bates 016: “*This project blanket covers services that are candidates for replacement due to leak history that are not covered under other project blankets such as bare or unprotected steel services with documented leaks. The budgets cost for this project was \$550,000. Due to underruns on other projects within the Company’s capital program, there was funding available to complete additional random service replacements in 2021. A change order was approved and issued to increase this project blanket’s budget to \$700,000 and the actual amount spent was \$645,720.*”

The Replacement Services project was noted to be a mandated project, and thus would not require a Business Case document to support the capital expenditure.

Attachment 6: 8840-2105 – Replacement Services random

- a. Capex Form
- b. Change Order
- c. Project Closeout Report

A Capital Project Expenditure Form, dated 12/21/2020 was provided, describing the Replacement Services project as both planned and mandated. The initial requested capital was \$550,000. Details of the request were: *“This project will provide for random replacement services random (due to leaks).”* Authorization was documented to be:

Senior Director/Director	up to \$250,000	signed by R. Mostone, 12/23/2020
Senior VP/VP	up to \$500,000	signed by R. MacDonald, 12/28/2020
State President	up to \$500,000	signed by S. Fleck , 01/04/2021
Regional President	up to \$3 million	signed by J. Sweeney, not dated

A Change Order Form, dated 10/29/2021 for an additional \$150,000 reflected the reason for the increased budget (up to \$700,000) to be: *“Additional services completed compared to last year, along with additional funding available in EnergyNorth capital portfolio”*. Authorization was documented to be:

Manager/Staff	up to \$250,000	signed by R. Mostone, 11/4/2021
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A Project Closeout Report provided in Attachment 6.c was not dated but indicated a completion date of 12/31/2021. The Closeout Report noted the budget amount of \$550,000, the actual expenditures of \$645,720 resulting in a variance of \$98,720 supported by Change Order #1. Authorization signatures included:

Project Lead	R. Mostone	02/08/2022
Project Sponsor	R. MacDonald	03/08/2022

Audit requested and received the work order detail for this project. This included 832 entries to CWIP and specifically:

<u>Job Number</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402105-38001	\$ 88,072.92	\$4,038.02	\$ 178,322.57	\$ 185,627.26	\$ 456,060.77
402105-38002	\$ 11,289.78	\$ 829.33	\$ 51,580.26	\$ 31,591.02	\$ 95,290.39
402105-38201	\$ 21,103.47	\$ 343.01	\$ 908.00	\$ 31,332.69	\$ 53,687.17
Grand Total	\$ 120,466.17	\$ 5,210.36	\$ 230,810.83	\$ 248,550.97	\$ 605,038.33

Non-growth Project 8840-2110 Leak Repairs

Budget	\$1,750,000	
Actual	<u>\$1,423,499</u>	81% of budget
Difference	\$ 326,501	

The in service amount noted in the filing, Attachment 1, was \$1,325,263.84.

Per the filed testimony on Bates 017: *“The project blanket addresses leaks at clusters of main line valves when they arise. The primary driver of this project is to extend asset life by repairing gas leaks allowed under the capital policy.”*

The Leak Repairs project was identified as “mandated”, thus not requiring a Business Case document.

Attachment 7:8840-2110 – Leak repairs

- a. Capex Form
- b. Change Order – N/A
- c. Project Closeout Report

The Capital Project Expenditure Form, dated 12/21/2020 in the amount of \$1,750,000 indicated that the planned project is mandated. As a result, a business case is not required. The description details: *“The projects will address main valve cluster leaks when they arise. The primary driver of this project is to extend asset life by repairing gas leaks allowed under capital Policy.”* Authorizations were documented to be:

Senior Director/Director	up to \$250,000	R. Mostone, 12/23/2020
Senior VP/VP	up to \$500,000	R. MacDonald, 12/28/2020
State President	up to \$500,000	S. Fleck, 01/04/2021
Regional President	up to \$3,000,000	J. Sweeney, not dated

There were no Change Order Forms required for this project.

A Project Closeout Report provided in Attachment 7 did not provide a closeout date but noted a project completion date of 12/31/2021. The report indicated the budgeted amount of \$1,750,000 with actual expenditures of \$1,423,499 resulting in a variance of \$326,501. The report was signed by:

Project Lead	R. Mostone	signature dated 02/08/2022
Project Sponsor	R. MacDonald	signature dated 03/08/2022

Audit requested and received the work order detail for this project. This included 934 entries to CWIP and specifically:

<u>Row Labels</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402110-37601	\$ 266,132.61	\$ 35,518.89	\$ 490,679.96	\$ 451,386.23	\$ 1,243,717.69
402110-37602	\$ 13,226.23		\$ 36,516.87	\$ 31,803.05	\$ 81,546.15
Grand Total	\$ 279,358.84	\$ 35,518.89	\$ 527,196.83	\$ 483,189.28	\$ 1,325,263.84

Audit selected one invoice to review in detail from 402110-37601 for the third quarter (Q3) leak survey in the amount of \$53,698.14. The amount charged to the work order is the capital, non-labor, portion of the total expense.

The Q3 total survey cost summed to \$276,202 with \$109,738 for labor and \$166,464 being for non-labor. 2021 year-to-date, 32.26% of the actual leak repairs were capital, with 67.74% being expensed, so Liberty multiplied the capital percentage against the non-labor amount of \$166,464 resulting in \$53,698.14 being charged to the work order. Audit recalculated the figure and notes the non-labor amount multiplied by 32.26% is \$53,701.29, an immaterial difference of \$3.15.

Liberty provided Audit with an Excel spreadsheet showing the Journal Entry number, the month the entry was posted to the GL (July, August or September) the amount and the invoice number. Liberty also provided all 63 invoices that were charged to the work order in the third quarter for non-labor expenses. Audit reviewed all of the documentation and noted that the majority of the expense, 99%, were from a consultant for completed surveys. The other 1% was for traffic control and supplies, totaling \$1,334.

Liberty has a contract with New England Traffic Control which was provided to Audit. The contract states a straight time rate and an overtime rate and when each is applicable. Audit verified the rates from the contract to the invoice without exception for the straight time. There was a total of 4.5 hours of overtime charged to the invoices. Audit was able to verify 3.5 of them but the flagger who worked only one hour, which was at the overtime rate, did not have supporting documentation attached to the invoice. This was the only documentation missing to support the charges.

The invoices from OMark Consulting were for both mobile and walking surveys. For a walking survey a handheld leak detecting device is used which indicates that there is a leak as the route of the gas pipes in the ground are walked. A mobile survey is when a vehicle drives up and down various streets and records leaks that are detected and the location. All invoices include a survey report which indicated the town the survey took place, whether it was walking or mobile, and the number of inspections performed if it was a walking survey. Mobile surveys are charged at a flat rate per day, while walking surveys charge a rate per inspection performed.

Seven of the invoices charged to the Q3 leak survey work order were from 2020 and were noted to be past due. Three of the invoices were dated 5/15/2020 totaling \$4,581.48, three others were dated 5/22/2020 totaling \$4,408.89 and the last invoice was dated 10/12/2020 for \$1,341.07. Audit recommends removing a total of \$10,331.44 from the Q3 non-labor total of \$166,464.23, resulting in a new total of \$156,132.79. The new non-labor amount of \$156,132.79

should then be multiplied by 32.26% resulting in the total being charged to the capital work order to be \$50,368.43. Liberty should reduce the amount booked to the 2021 work order by \$3,329.71 (\$53,698.14 less \$50,368.43). **Audit Issue #2**

Non-Growth Project 8840-2111 Main Replacement LPP

Budget	\$8,601,089
Actual	<u>\$7,802,897</u> 91% of budget
Difference	\$ 798,192

The in service amount noted in Attachment 1 of the filing is \$8,128,527.75

Per the filed testimony on Bates page 017: *“The scope of work of this project is prioritized replacement of cast iron and bare steel gas mains and services in the Company’s pipeline system. The gas main and service leak prone pipe (“LPP”) program replaces aging gas infrastructure before safety issues arise. To accomplish these safety improvements on an ongoing multi-year basis, the Company continually assesses asset conditions and defects within its pipeline system. The program for 2021 included prioritized replacement of cast iron and unprotected bare steel piping by executing approximately 22 construction jobs to replace 3.6 miles of gas main.*

The budgeted cost for this project was \$8,601,098 and the actual cost was \$7,802,897. Several jobs that traditionally would have been included in the leak prone pipe program were covered by the City/State Construction program, which was utilized in 2021 to capture some of the leak prone pipe replacement that was planned on streets which the cities or towns re-paved.”

This Main Replacement LPP project was identified as safety on the Capex Form and as Mandated on Attachment 1 of the filing. Neither of these project types require a Business Case document.

Attachment 8: 8840-2111 – Main Replacement LPP

- a. Capex Form
- b. Change Order – N/A
- c. Project Closeout Report

A Capital Project Expenditure Form dated 01/11/2021 in the amount of \$8,601,098 was provided, indicating this project was planned and for safety. The project description matches the filed testimony as noted above. Authorizations were noted to be:

Senior Manager	up to \$50,000	A. Bernier, 01/11/2021
Senior Director/Director	up to \$250,000	C. Rodrigues, 01/12/2021
Senior VP/VP	up to \$500,000	R. MacDonald, 01/14/2021
State President	up to \$500,000	S. Fleck, 01/15/2021
Regional President	up to \$3,000,000	J. Sweeney, not dated
Corporate Sr VP Operations	up to \$5,000,000	no signature
Corporate – Exec Team	over \$5,000,000	no signature

Liberty provided Audit with the email from 1/25/2021 in which the Corporate Senior VP, Gerald Tremblay and Johnny Johnston, COO both approved the project.

There were no Change Order Forms issued in regard to the Main replacement LPP project.

A Project Closeout Report was also provided as Attachment 8.c but did not include a closeout date or project completion date. The Closeout Report noted the budget as \$8,601,098 with actual expenditures of \$7,802,897 resulting in a variance of \$780,201. **Audit Issue #3**
The Closeout report contained the following authorizing signatures:

Project Lead	Bradford Marx	03/30/2022
Project Sponsor	Charles Rodrigues	04/04/2022

Audit requested and received the work order detail for this project. Liberty provided an Excel spreadsheet which included 6,089 entries to CWIP and numerous job numbers.

Non-Growth Project 8840-2113 Main Replacement Fitting LPP

Budget	\$740,501
Actual	<u>\$604,856</u> 82% of budget
Difference	\$135,645

The in service amount per Attachment 1 of the filing is \$560,974.62.

Per the filed Testimony on Bates page 018: *“This project blanket covers the replacement of metering equipment associated with the replacement of mains and services under the Main Replacement LPP program. This project included the remediation of significant defects discovered as part of the LPP program as well as the replacement of meters and risers.”*

The Main Replacement Fitting project is Discretionary, thus should include a Business Case document detailing the merits of the project, which was included:

Attachment 9: 8840-2113 – Main Replacement Fitting LPP

- a. Business Case
- b. Capex Form
- c. Change Order – N/A
- d. Project Closeout Report

The Capital Project Business Case dated 12/21/2020 reflected a cost estimate of \$740,501. The discretionary project was identified as an Improvement. The scope statement read: *“Main Replacement/Fitting Integrity Program will identify and replace meter installations associated with the LPP Main Replacement Program.”*

Attachment 9.a noted time and date stamped authorizations of:

Senior Director/Director	up to \$250,000	R. Mostone	12/23/2020
Senior Vice President/VP	up to \$500,000	R. MacDonald	12/28/2020

State President	up to \$500,000	S. Fleck	01/04/2021
Regional President	up to \$3,000,000	J. Sweeney	not dated

The Capital Expenditure Form dated 12/21/2020 reflected the same project description as the Business Case. The Capex Form reflected the same authorization signatures and dates as noted on the Business Case.

There were not Change Order Forms issued for project 8840-2113.

A Project Closeout was provided as Attachment 9.d which did not include a closeout date or a project completion date. The Closeout report noted the project budget as \$740,501 with actual expenditures of \$604,856 resulting in a variance of \$135,645. **Audit Issue #3** Authorization on the closeout form were noted as follows:

Project Lead	R. Mostone	signature dated 02/08/2022
Project Sponsor	R. MacDonald	signature dated 03/08/2022

Audit requested and received the work order detail for this project. Specifically:

<u>Job Number</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402113-38201	\$ 204,307.03	\$ 25,585.26	\$ 1,846.01	\$ 329,236.32	\$ 560,974.62

Audit selected a labor charge, out of the 931 entries to CWIP, to review in detail for job 402113-38201 in the amount of \$1,682.80 for the payroll period of 10/10/2021 to 10/16/2021. Payroll support provided shows it was for one employee who worked 5 days, each 8 hours. The employee noted the job number on his/her timesheet. No exception was noted.

Non-growth Project 8840-2114 K Meter Replacement Program

Budget	\$350,000
Actual	<u>\$425,146</u> 121% of budget
Actual minus budget	\$ 75,146

The in service amount noted on Attachment 1 in the filing is \$380,281.58.

Per the filed testimony on Bates 018: *“This project aims to remove “K meters” from the natural gas system. K meters are 60 PSI service meter sets installed indoors. This project will replace such indoor meters with new outdoor meter sets, removing the risk of having metering and regulating equipment indoors. The budgeted cost for this project was \$350,000. Due to underruns on other projects within the Company’s capital program, there was funding available to complete additional K meter replacements in 2021. A change order was approved and issued to increase this project’s budget to \$500,000 and the actual amount spent was \$425,146.”*

The Capex Form notes the project type as safety when Attachment 1 of the filing shows it was discretionary. If the project is safety, a Business Case is not required, but for a discretionary project, it is. A Business Case was not provided for this project.

Attachment 10:8840-2114 – K Meter Replacement Program

- a. Capex Form
- b. Change Order
- c. Project Close Out Report

The Capital Project Expenditure Form dated 12/21/2020 requested capital of \$350,000. The replacement program is noted as planned and safety related. The project description is noted as: *“This project aims to remove K meters from the system. K Meters are 60 PSI meter sets installed indoors and have more risk than an outdoor meter set. At around \$5,000 per meter, this project should remove 86 of the 1,500 K meters left in the system.”* The approval signatures on the Capex Form were documented to be:

Senior Director/Director	up to \$250,000	R. Mostone	12/23/2020
Senior VP/VP	up to \$500,000	R. MacDonald	12/28/2020
State President	up to \$500,000	S. Fleck	01/04/2021

A Change Order Form dated 12/22/2021 requested \$150,000 *“Due to other underruns in other EN capital projects allowance to add additional work to blanket”*.

Authorizations noted on the Change Order were:

Senior Director/Director	up to \$250,000	R. Mostone, 12/21/2021
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A Project Closeout Report, dated 02/08/2022 noted a project completion date of 12/31/2021. The Closeout Report noted the original budget as \$350,000 and the total expenditure as \$425,146. The variance of \$75,146 was supported by Change Order #1. The authorizations on the Closeout Report were noted as:

Project Lead	Peter Chivers	02/08/2022
Project Sponson	Bradford Marx	02/08/2022

Audit requested and received the work order detail for this project. This included 616 entries to CWIP and specifically:

<u>Job Number</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402114-38002	\$ 61,844.57	\$4,287.69	\$ 128,013.69	\$ 142,387.67	\$ 336,533.62
402114-38201	\$ 17,862.15			\$ 25,885.81	\$ 43,747.96
Grand Total	\$ 79,706.72	\$4,287.69	\$ 128,013.69	\$ 168,273.48	\$ 380,281.58

Non-growth Project 8840-2115 Aldyl-A Replacement Program

Budget	\$200,000
Actual	<u>\$154,440</u> 77% of budget
Difference	\$ 45,560

The filing, Attachment 1, notes an in service amount of \$110,184.07.

Per the filed testimony on Bates page 018: *“Aldyl-A is a brand name polyethylene plastic pipe material installed prior to the year 1989. The procurement of Aldyl-A material ceased in 1986 and its shelf life was less than 3 years. As documented in the Department of Transportation, Pipeline and Hazardous Material Safety Administration, advisory bulletin ADB-99-02, entitled “Potential Failures Due to brittle-Like Cracking of Older Plastic Pipe in Natural Gas Distribution Systems,” Aldyl-A pipe installed between the 1960s and early 1980s is subject to premature cracking due to its composition. Aldyl-A is also commonly known to fail as joints due to poor construction practices which include improper surface heating temperatures and interfacial pressures. The Company has a quantity of Aldyl-A piping in its system that should be replaced. The budgeted cost of this project was \$200,000 and the actual cost was \$154,440. The first job selected to the project blanks cost \$154,440 to complete which did not leave sufficient funding for another Aldyl-A replacement job to be included under this blanket in 2021.”*

The Project is referenced as discretionary, thus, does require Business Case documentation which was not provided as part of the filing.

Attachment 11: 8840-2115 – Aldyl-A Replacement Program

- a. Capex Form
- b. Change Order – N/A
- c. Project Closeout Report

The CapEx Form dated 12/21/2020 reflected a requested capital dollar figure of \$200,000. The Form noted that the Aldyl-A Replacement project is a discretionary planned project. The Project description was the same as the testimony noted above. Authorizations were documented to be:

Manager	up to \$25,000	A. Bernier signed 12/21/2020
Senior Director/Director	up to \$250,000	R. Mostone signed 01/12/2021
Senior VP/VP	up to \$500,000	R. MacDonald signed 01/14/2021
State President	up to \$500,000	S. Fleck signed 01/15/2021

There were no Change Order Forms issued for the Aldyl-A replacement program.

A Project Closeout Report dated 03/29/2022 noted a project completion date of 12/31/2022. The Closeout Report does note there is a Business Case located on the “W Drive”, but one was not provided in the filing. The Report notes a budget of \$200,000 and actual expenses of \$154,440 resulting in a variance of \$45,560. Authorizations noted on the Closeout Report were:

Project Lead	Andrew Mills	03/29/2022
Project Sponsor	Bradford Marx	03/29/2022

Audit requested and received the work order detail for this project. There was one job number, 402115-37601, and 107 entries to CWIP.

Non-growth Project 8840-2116 Main Replacement Reactive

Budget	\$600,000
Actual	<u>\$362,781</u> 60% of budget
Difference	\$237,219

The in service amount noted in Attachment 1 of the filing is \$350,593.36.

Per the filed testimony on Bates page 019: *“The Main Replacement reactive blanket provides for the replacement of gas mains and services during urgent or emergency situations which fall outside of the normal scope of integrity, reinforcement, reliability, and public works blankets. The budgeted cost for this project was \$600,000 and the actual cost was \$362,781. The amount spent was enough to cover the amount of reactive main replacement in 2021.”*

Attachment 12: 8840-2116 – Main Replacement Reactive

- a. Business Case
- b. Capex Form
- c. Change Order – N/A
- d. Project Closeout Report – N/A

The Project was identified as Discretionary thus requiring a Business Case. The Business Case, dated 01/11/2021 notes the project was planned with a spending rationale of “Replenishment”. The project scope is the same as the testimony noted above. Authorizations were documented to be:

Senior Manager	up to \$50,000	A. Bernier signed 01/11/2021
Senior Director/Director	up to \$250,000	C. Rodrigues signed 01/12/2021
Senior VP/VP	up to \$500,000	R. MacDonald signed 01/14/2021
State President	up to \$500,000	S. Fleck signed 01/15/2021
Regional President	up to \$3,000,000	J. Sweeney, not dated

The Capex Form dated 01/11/2020 requested capital of \$600,000 for the project with beginning date of 03/01/2021 and an end date of 12/31/2021. Authorizations were documented to be the same as the Business Case noted above.

There were no Change Order Forms issued for the Main Replacement project.

There was no Project Closeout Report provided for the Main Replacement Reactive project. Audit questioned why this was the case and Liberty noted that *“Project close out forms are filled out when they project is completed. While these went into service in 2021, they weren’t completed by 12/31/2021 so a close out for is not required. Once they are fully completed, a close out for will be filled out”*.

Audit requested and received the work order detail for this project. This included 211 entries to CWIP and specifically:

<u>Job Number</u>	Cost Element				<u>Grand Total</u>
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	
402016-37603				\$ 4,587.88	\$ 4,587.88
402016-37606		\$ 15.67	\$ 262,573.20	\$ 81,077.23	\$ 343,666.10
402016-37607			\$ (1,061.43)	\$ 115.38	\$ (1,503.55)
402116-37601	\$ 1,240.53		\$ 691.60	\$ 1,353.30	\$ 3,285.43
Grand Total	\$ 1,240.53	\$ 15.67	\$ 262,203.37	\$ 87,133.79	\$ 350,593.36

Non-growth Project 8840-2118 Purchase Misc. Capital Equipment & Tools

Budget	\$600,000
Actual	<u>\$362,781</u> 60% of budget
Difference	\$237,219

Attachment 1 in the filing noted an in service amount of \$247,678.76.

Per the filed testimony on Bates page 019: *“This project blanket covers equipment and tools purchased for non-infrastructure projects. The Gas Operations department identified individual equipment and tools needs. From these needs, designated purchases were approved and capitalized following the Company’s policies. The project funds standard replenishment and improvement of equipment and tools. These purchases ultimately support safe and productive working environments.*

The budgeted cost for this project was \$200,000 and the actual cost was \$518,400. Due to underruns on other projects within the company’s capital program, there was funding available to purchase more equipment. The Company has the opportunity to purchase the MT Desson Polystop for 6-inch and 8-inch main. This purchase provides the ability to observe gauge gas main pressure through the equipment to utilize a bypass through the equipment, which results in fewer fittings required to be installed on the main, no blowdown operations, and a smaller excavation size. Also purchased in 2021 were Detecto Pak (DP/IR) gas detection unites to replace older technology FI Units that were over twenty years old and no longer supported. These units provide a newer and safer way for field employees to investigate potential gas leaks from a safe distance. A change order was approved and issued to increase this project’s budget to \$519,000 and the actual amount spent was \$518,400.”

Attachment 13: 8840-2118 – Purchase Miscellaneous Capital Equipment and Tools

- a. Business Case
- b. Capex Form
- c. Change Order
 - i. Change Order #1
 - ii. Change Order #2
- d. Project Closeout Report

The Project was identified as Discretionary thus requiring a Business Case. Attachment 1 in the filing lists the project as safety, which would not require a Business Case; however, one was provided. The Business Case, dated 01/22/2020 notes the project was planned with a spending rationale of “Replenishment”. The project scope statement notes *“equipment and tools will be purchase under blanket from Miscellaneous Capital for non-infrastructure projects.”* Authorizations were documented to be:

Senior Director/Director up to \$250,000 R. Mostone signed 02/09/2021

The Capex Form dated 01/07/2021 requested capital of \$200,000 for the project. Authorizations were documented to be the same as the Business Case noted above.

The first Change Order Form issued for the Miscellaneous Tools project was dated 04/22/2021 and requested an additional \$200,000, resulting in the project total being \$400,000. The basis of the change order was noted as timing of GPS and radio detection transmitter purchases made. *“Both purchased were received December 2020, burdens for these purchases applied in fiscal year January 2021 \$172K.”* Robert Mostone signed the change order 04/28/2021. It appears the GPS units and related overhead reflected in this first change order were not noted in either Step 1 or Step 2.

The second Change Order Form issued 01/19/2022 in the amount of \$119,000, resulting in the project total now being \$519,000. The basis of the change order was to purchase equipment that would result in less excavation and save on paving costs. It also replaced older technology that was over 20 years old and no longer supported. The change order was authorized by Robert Mostone on 01/20/2022.

Project Closeout Report, was not dated and did not include a project completion date. The project close out report noted the budgeted amount as \$200,000 with actual expenditure totaling \$518,400. The variance amount of \$318,400 is supported by Change Order #1 and Change Order #2. **Audit Issue #3**

The Closeout Report was authorized by the following signatures:

Project Lead	R. Mostone	02/08/2022
Project Sponsor	R. MacDonald	03/08/2022

Audit requested and received the work order detail for this project. This included 91 entries to CWIP and specifically:

<u>Row Labels</u>	Cost Element			<u>Grand Total</u>
	<u>1</u>	<u>4</u>	<u>6</u>	
402118-39401		\$ 11,038.86	\$ 3,416.53	\$ 14,455.39
402118-39402		\$ 140,337.92	\$ 41,441.15	\$ 181,779.07
402118-39404	\$ 493.46	\$ 9,899.00	\$ 699.44	\$ 11,091.90
402118-39412		\$ 3,181.38	\$ 939.44	\$ 4,120.82
402118-39601		\$ 8,420.85	\$ 565.62	\$ 8,986.47
402118-39602		\$ 15,366.00	\$ 4,537.51	\$ 19,903.51
402118-39801		\$ 1,000.00	\$ 223.60	\$ 1,223.60
402118-39802		\$ 1,000.00	\$ 223.60	\$ 1,223.60
402118-39803		\$ 1,000.00	\$ 223.60	\$ 1,223.60
402118-39804		\$ 1,000.00	\$ 223.60	\$ 1,223.60
402118-39805		\$ 2,000.00	\$ 447.20	\$ 2,447.20
Grand Total	\$ 493.46	\$ 194,244.01	\$ 52,941.29	\$ 247,678.76

Non-growth Project 8840-2123 Main Replacement City/State Construction

Budget \$4,654,819
 Actual \$8,087,355 174% of budget
 Actual minus Budget \$3,432,536

The filing, Attachment 1, notes an in service amount of \$7,864,635.64.

Per the filed testimony on Bates 020: “This blanket is for main and service replacement city/state construction. City-State construction related work responds to third-party construction activity which threatens the integrity of the Company’s natural gas facilities. Typical third-party construction that impacts those facilities includes new water, sewer, and drainage infrastructure, street reconstruction, road alignment, and/or bridge replacement. If the Company does not replace or relocate mains that are impacted by third-party work, this puts the integrity of the Company’s gas facilities in jeopardy and may also harm the relationship between the Company and local municipalities. Working with the municipalities also affords us the benefit of shared restoration costs which are our single largest expense on such projects.

The budgeted cost for this project was \$4,654,819 and the actual cost was \$8,087,355. The additional spending was necessary due to the increased pace of direct conflicts needing to be addressed which were not known at the time the budget was set. The location and scope of work for such projects are increasing the cost to complete the required main replacements and relocations. Some of this incremental cost involves the replacement of leak prone pipe. Since the initial 2021 work plan was first developed, the cities and towns have shared more plans with the Company showing direct impacts to our facilities, thus adding more work to the City/State plan.”

This Main Replacement City/State Construction project was identified as mandated, thus does not require a Business Case document.

Attachment 14: 8840-2123 – Main Replacement City/State Construction

- a. Capex Form
- b. Change Order
- c. Project Closeout Report

A Capital Project Expenditure Form dated 01/11/2021 in the amount of \$4,654,819 was provided, indicating this project was planned and mandated. The project description matches what was provided in the filed testimony noted above. Authorizations were noted to be:

Senior Manager	up to \$50,000	A. Bernier, 01/11/2021
Senior Director/Director	up to \$250,000	C. Rodrigues, 01/12/2021
Senior VP/VP	up to \$500,000	R. MacDonald, 01/14/2021
State President	up to \$500,000	S. Fleck, 01/15/2021
Regional President	up to \$3,000,000	J. Sweeney, not dated
Corporate Sr VP Operations	up to \$5,000,000	no signature

Liberty provided Audit with an email which contained Gerald Tremblay’s approval of the project on budget on 01/25/2021. This corporate signature was required as the project budget was over \$3 million.

A Change Order Form without a date requested an additional \$5,000,000 bringing the adjusted budget to \$9,654,819. The basis of the change was noted to be:

“The NH cities and the State of NH DOT have received increased federal funding for public works project and are planning more infrastructure work that is causing direct and unavoidable conflicts with our gas facilities, resulting in a greater volume of City State Construction work in 2021. The location and scope of work for such projects are increasing the capital necessary to complete required main replacements and relocations. Some of this incremental capital spending involves the replacement of leak-prone pipes. Since the initial 2021 EN City State work plan was developed, the cities and towns have shared more plans with Liberty showing direct impacts to our facilities, thus adding more work to the EN City State work plan. During an earlier monthly capital status and planning meeting, it was announced by the NH Finance Team that there is a current favorable Business Group profit, which allows additional capital spend in 2021. This aligns with our mandated target to complete leak-prone pipe replacement by 2025.”

Authorizations were noted to be:

Manager	up to \$25,000	B Marx, 07/27/2021
Senior Director/Director	up to \$250,000	C. Rodrigues, 07/27/2021
State President/Senior VP	up to \$500,000	N. Proudman, 07/29/2021
Regional President	up to \$3,000,000	J. Sweeney, 07/29/2021
Corporate – Sr VP Oper.	up to \$5,000,000	no signature
Corporate – Exec Team	over \$5,000,000	no signature

Audit requested additional documentation as the corporate signatures were missing from the change order provided. Liberty provided email correspondences in which Gerald Tremblay,

Senior VP of Operations, approved the change order on 08/05/2021 and Johnny Johnston, COO, approved the change order on 08/11/2021.

The Project Closeout Report, dated 03/29/2022, noted a project completion date of 12/31/2021. It noted the requested budget as \$4,654,819 with actual spending amounting to \$8,087,355. The variance of \$3,432,536 was supported by the Change Order. Authorizing signatures on the Closeout Report were noted as:

Project Lead	Andrew Mills	03/29/2022
Project Sponsor	Bradford Marx	03/29/2022

Audit selected five invoices to review for the Main Replacement City/State Construction work order. The first invoice reviewed was from job 402123-37602 in the amount of \$108,218.13. This invoice was for subcontracted services and included a restoration sheet to support the charges. The invoice was for services performed on August 9, 2021.

The second invoice reviewed was for job 402123-37622 in the amount of \$215,950.60. This invoice was also for subcontracted services and included the restoration sheet to support the invoice. Services for this invoice were performed on November 15, 2021.

A third invoice reviewed was in the amount of \$15,000 for an easement for job number 402123-37607. Liberty provided Audit with the check request form, dated 7/1/2021, to support the charge. The check was to be given to the landowner upon signature of the easement agreement. The "Business Purpose" noted on the check request form was "*Easement for installation of new 2" 60 PSIG Gas Main thru landowner property to allow for larger LP to HP conversion project.*"

The fourth invoice reviewed was in the amount of \$364,775.60 for job 402123-37615. This invoice was for subcontracted services from February 2021 through March 2021. The invoice includes supporting documentation such as: daily productivity reports, which includes the date, hours, rate, and description of the charge; daily change orders; main field records; and test documentation.

The final invoice reviewed was for job 402023-37618 in the amount of \$184,169.86. This invoice was also for subcontracted services and included 25 restoration sheets to support the June 2021 through August 2021 charges.

Non-growth Project 8840-2125 Service Replacement Fitting City/State Construction

Budget	\$303,000
Actual	<u>\$559,721</u> 185% of budget
Difference	\$256,721

The in service amount noted on the filing's Attachment 1 is \$549,782.02.

Per the filed testimony on Bates page 021: "*This blanket project provided for the replacement of metering equipment associated with the replacement of mains and services under*

the City/State Construction program. This project included the remediation of significant defects discovered as part of the City/State Construction program, as well as the replacement of meters and risers.

The budgeted cost for this project was \$303,000 and the actual cost was \$559,721. The additional spending was necessary due to the increased pace of direct conflicts needing to be addressed as described above in the blanket description for 8840-2123 Main Replacement City/State Construction.”

Attachment 15: 8840-2125 – Service Replacement Fitting City/State

- a. Capex Form
- b. Change Order
- c. Project Closeout Report

The Project was identified as mandated, thus not requiring a Business Case.

The Capex Form dated 12/21/2020 requested capital of \$303,000 for the project with beginning date of 01/01/2021 and an end date of 12/31/2021. The project description notes *“City/State construction-related work responds to third party construction activity, which threatens the integrity of the Company’s natural gas facilities. Typical third party construction that impacts those facilities include new water, sewer, and drainage infrastructure, street reconstruction, road realignment, and bridge replacement. State codes and Company procedures require the replacement of eight-inch and smaller cast iron gas mains if roadway or underground construction is being performed in such a way that would impact the integrity of out pipes.”* Authorizing signatures were documented as:

Manager	up to \$25,000	A. Bernier, 12/21/2020
Senior Director/Director	up to \$250,000	R. Mostone, 12/21/2020
Senior VP/VP	up to \$500,000	R. MacDonald, 12/28/2020
State President	up to \$3,000,000	S. Fleck, 01/04/2021

One Change Order Form was issued for the Service Replacement project dated 12/22/2021 in the amount of \$300,000. The Reason for Change noted was *“as result of other EnergyNorth project underruns Liberty capital portfolio had funds available to complete additional work under the City/State project.”* The authorizing signature on the Change Order Form were:

Senior Director/Director	R. Mostone	12/21/2021
State President/Senior VP	R. MacDonald	12/23/2021
Regional President	J. Sweeney	12/23/2021

The Project Closeout Report included in filing did not have a closeout date or a project completion date. The form did show the budget amount as \$303,000 with actual expenses being \$559,721. The variance of \$256,721 was supported by change order #1. **Audit Issue #3**

Authorizing signatures were:

Project Lead	Bradford Marx	03/30/2022
Project Sponsor	Charles Rodriguez	04/01/2022

Audit requested and received the work order detail for this project. This included 501 entries to CWIP and three job numbers.

Non-growth Project 8840-2131 Gas System Planning & Reliability

Budget	\$2,900,000	
Actual	\$1,850,451	64% of budget
Difference	\$1,049,549	

The in service amount noted on Attachment 1 of the filing is \$959,389.01.

Per the filed testimony on Bates page 022: *“The system reliability blanket includes projects that provide operational benefits to our customers by improving and providing better system pressure to areas identified based on SCADA system data and hydraulic analysis as having poor pressure during cold weather conditions. It also includes strategic main connections designed to allow for low to high-pressure conversion projects to occur under the LPP program. This reflects planned work to correct known deficiencies in the distribution system.*

The budgeted cost for this project was \$2,900,000 and the actual cost was \$1,850,451. Originally budgeted within this blanket was a job to extend new 8-inch plastic main on Daniel Webster Highway in Nashua, estimated to cost approx. \$1,000,000. An alternative option was presented via adjacent development, and the alternative option will result in significant construction cost savings. As a result, this job (Daniel Webster Highway) was deferred to 2022. This decision was made too late in the 2021 construction season to add another job under the project blanket to replace the proposed Daniel Webster Highway job.”

Attachment 16: 8840-2131 – Gas System Planning & Reliability

- a. Business Case
- b. Capex Form
- c. Change Order – N/A
- d. Project Closeout Report

The Project was identified as Discretionary thus requiring a Business Case. The Business Case, dated 01/11/2021 notes the project was planned with a spending rationale of “Improvement”. The project scope is the same as the testimony noted above. Authorizations were documented to be:

Senior Manager	up to \$50,000	A. Bernier signed 01/11/2021
Senior Director/Director	up to \$250,000	C. Rodrigues signed 01/12/2021
Senior VP/VP	up to \$500,000	R. MacDonald signed 01/14/2021
State President	up to \$500,000	S. Fleck signed 01/15/2021
Regional President	up to \$3,000,000	J. Sweeney, not dated

The Capex Form dated 01/11/2021 requested capital of \$2,900,000 for the project with beginning date of 03/01/2021 and an end date of 12/31/2021. The project description is “*The*

system reliability blanket includes project that provide operational benefits to customers beyond those of traditional systems reinforcement projects and focus on gas planning & improving overall system reliability”. The Capex Form notes that the project is “Not currently” growth related. Authorizations were documented to be the same as the Business Case noted above.

Audit questioned Liberty what not currently growth related meant. Their response was “There are times when a gas reliability project will be growth and if it was, we would enter it in this section. This was not one. The engineer should have noted ‘no’”.

There were no Change Order Forms issued for the Gas System Planning and Reliability project.

The Project Closeout Report, dated 03/29/2022, notes a project completion date of 12/31/2021. The budget noted on the Closeout report was \$2,900,000 with \$1,850,451 as actual expenditures leaving \$1,049,550 unused. The Report contained the following authorizing signatures:

Project Lead	Andrew Mills	03/29/2022
Project Sponsor	Bradford Marx	03/29/2022

Audit requested work order documentation and was provided an Excel spreadsheet that sums to the in service amount of \$959,389.01.

Non-growth Project 8840-2138 IT

The in service amount for IT during 2021 is noted to be \$351,408.12, per Attachment 1 of the filing.

Per the filed testimony on Bates page 022: “*This project blanket covers Integrated Technology-related upgrades and improvements across the Company’s information management systems. The cost associated with five IT projects were allocated to EnergyNorth in 2021:*

- *The software previously used for document management, Fortis 2.5, was no longer being supported by the vendor, making it necessary to upgrade to DocuWare 7.1. The document management system is used primarily by Engineering, Legal, and Customer Service. The total cost for this upgrade was \$98,695.”* Audit believes the cost for the project noted in the testimony transposed the final two digits (9 and 5) as all supporting documents note the total being \$98,659.
- *The procurement department was relocated to a new, leased location at 7 Delta Drive in Londonderry. The location was formerly an office space and material warehouse. IT infrastructure for the five to six full-time employees located at the facility needed to be configured, including a security system and badge readers. The total cost for installation of this IT infrastructure at the new location was \$35,610.*
- *The Company implemented a new integrated HR system, SAP SuccessFactors, for recruiting onboarding, an employee master data. SAP Success Factors is considered a market leader in human capital management technology. The total cost for this upgrade was \$287,893.*

- *The Company implemented a new “Procure to Pay” (P2P) cloud-based technology platform. The P2P application is a self-service and integrated requisition platform featuring mobile approval, auto purchasing, and receiving and invoicing solutions. The total cost for this upgrade was \$178,839.*
- *The Company upgraded its Payment Processing to deliver the foundation for a single payment processing platform for the enterprise. This will allow the Company to provide a positive and consistent payment experience and enable payments to be processed efficiently, accurately, and securely. The total cost for this upgrade was \$401,305.”*

Attachment 17: 8840-2138 – IT

- a. Business Case
- b. Capex Form (Work Intake Request)
- c. Change Order – N/A
- d. Project Closeout Report – N/A

The Business Case, for the DocuWare upgrade, dated 09/19/2019, was from Liberty Algonquin Business Services. There were three signatures located on the Business Case: Review by the Manager/Director (NH); V.P (<251,000); and IT Director. The Business Case notes the problem opportunity was *“Fortis 2.5 is a document management system used primarily by Engineering, Legal, Customer Service in NH and Empire District. The software is no longer supported by the DocuWare (Vendor) and must be upgraded to DocuWare 7.1.”* The Cost Allocation noted on the Business Case shows it is **100% Liberty NH** in the amount of \$98,659

A second Business Case, for the Enterprise Technology Infrastructure Upgrade, was dated 01/28/2019 and noted for *“the technology infrastructure upgrade and consolidation of Liberty Utilities enterprise phone system and customer contact center (call center environments) systems to address end of life risks and consolidate and converge communications and workforce efficiency and optimization tools across the enterprise.* Authorizing signatures were documented as:

John Lowson	VP of IT	02/14/2019
Brent Baker	VP Customer Operations	not dated
Gerald Tremblay	SVP LU Operations	02/14/2019

The Business Case was originally approved for a total of \$1,500,000 with approximately \$700,000 for capital required in 2018 and \$800,000 for capital required in 2019. An additional \$3,300,000 was requested for 2019 as the required capital was increased to \$4,800,000.

The total costs of \$4,818,980, were allocated to EnergyNorth based on the 2018 Cost Allocation Manuel in which 9.88%, or \$475,981, of capital expenditures was allocated to ENG.

The Business Case also noted the forecasted annual vender Operation Expenditures (OpEx) of \$591,630 for 2019. Using the 2018 CAM 9.88%, or \$58,074, was allocated to EnergyNorth for OpEx of license and hardware support.

The Capex Form, or Work Intake Request, was dated 09/20/2019 and requested capital of \$98,659 for the DocuWare 7.1 upgrade. The cost estimate is broken down into the following categories:

Infrastructure and Hardware Cost	\$30,266
Application Support	\$ 6,200
DocuWare Upgrade NH	\$24,750
DocuWare Work-Flow add-on	\$13,000
UAT (Users Testing)	\$ 8,000
Project Management	<u>\$16,443</u>
Total	\$98,659

Authorizations were from Charles Rodrigues, Director/Engineering and was dated 10/2/2019

There were no Change Order Forms issued for the IT project.

Liberty provided a Change Request History for the Enterprise Tech Infrastructure Upgrade. The table provided indicated that there were thirty-two change requests issued between April 24, 2019 and July 31, 2020 totaling \$1,346,344 CND. The project total was adjusted to \$6,163,243 with 9.90%, or \$609,953.50, being allocated to EnergyNorth as the allocation percentages were updated. The change request summary and final financial allocations were approved by the IT project Director, E Mohacsy, on June 30, 2021.

There was no Project Closeout Report noted for the IT projects. Audit questioned why this was the case and Liberty noted that *“Project close out forms are filled out when they project is completed. While these went into service in 2021, they weren’t completed by 12/31/2021 so a close out for is not required. Once they are fully completed, a close out for will be filled out”*.

Audit requested bidding documentation for the IT projects. Liberty responded to Audit’s request and noted that there were no bidders or RFPs issued for the IT projects. Liberty noted *“For IT, we have corporate IT employees implementing changes to our system as needed to make the business run better.”*

The Business Case for the Enterprise Technology Infrastructure Upgrade did note that there was an RFP process. After consultation with the manufacturers (Cisco and Genesys) five invited bidders were identified with four submitting bids. Liberty Customer Experience and IT teams scored the bids with Altivon/Longview scoring the highest by both teams. Following reference checks, Altivon/Longview was selected as the winning bidder.

Audit requested and received the work order detail for this project. There were a total of 19 CWIP entries summing to the following:

<u>Job Number</u>	Cost Element		<u>Grand Total</u>
	<u>1</u>	<u>4</u>	
402138-30301	\$ 27,699.43	\$ 205.23	\$ 27,904.66
402138-30302	\$ 33,723.93	\$ 1,886.31	\$ 35,610.24
402138-30303		\$ 287,893.22	\$ 287,893.22
Grand Total	\$ 61,423.36	\$ 289,984.76	\$ 351,408.12

Audit reviewed the work order detail and noted the \$287,893.22 for job 402138-30303 was an accrual for the “September Capital Direct Billing” booking 9/30/2021. Accruals reverse the first of the following month to reflect a net zero. The work order detail does not show a 10/1/2021 reversal of the accrued amount. Audit also noted this is the only accrual booked to the work order as 16 CWIP entries were for labor and 2 CWIP entries were for vouchers totaling \$2,091.54. **Audit Issue #2**

Non-growth Project 8840-2190 Transportation

Budget	\$2,013,000
Actual	<u>\$1,142,619</u> 57% of budget
Difference	\$ 870,381

The in service amount noted on Attachment 1 of the filing is \$970,392.57.

Per the filed testimony on Bates page 023: *“This project blanket covers the annual purchases of vehicles. A review and assessment of the fleet is performed in conjunction with operations to determine any additional fleet requirements and replacements based on the current condition (mileage and age) of the fleet as determined in the corporate fleet policy. To support the requirement to construct and maintain the gas distribution assets in the territory, there is a requirement for crews and employees to use trucks and cars to perform the work. The project funds the purchase of new and replacement vehicles required to support these operations. The budgeted cost for this project was \$2,013,000 and the actual cost was \$1,142,619. The Company experienced challenges with respect to availability of vehicles and was unable to purchase all of the originally planned fleet vehicles in 2021.”*

Attachment 18: 8840-2190 – Transportation

- a. Business Case
- b. Capex Form
- c. Change Order – N/A
- d. Project Closeout Report

The Project was identified as Discretionary thus requiring a Business Case. The Business Case, dated 01/21/2021 notes the project was planned with a spending rationale of “Replenishment”. The project scope is noted as *“This project represents the annual purchases of vehicles required for Liberty Utilities (EnergyNorth). A review and assessment of the fleet is performed in conjunction with operations to determine any fleet additions required and*

replacement needs based on the current condition (mileage and age) of the fleet as determined by the corporate fleet policy.” The Business Case noted a project cost of \$2,013,000. Authorizations were documented to be:

Senior Director/Director	up to \$250,000	R. Foley signed 02/08/2021
Senior VP/VP	up to \$500,000	R. MacDonald signed 02/11/2021
State President	up to \$500,000	S. Fleck signed 02/16/2021
Regional President	up to \$3,000,000	J. Sweeney, 03/02/2021

The Capex Form dated 01/6/2021 did not show a requested capital amount on the first page but did show a requested amount of \$2,113,000 for the project on the third page. This amount was \$100,000 more than the Business Case capital request. Authorizations were documented to be :

Senior Director/Director	up to \$250,000	R. Foley signed 01/07/2021
Senior VP/VP	up to \$500,000	R. MacDonald signed 02/11/2021
State President	up to \$500,000	S. Fleck signed 02/16/2021
Regional President	up to \$3,000,000	J. Sweeney, no date

There were no Change Order Forms issued for the Main Replacement project.

The Project Closeout Report, did not contain a closeout date but did note a project completion date of 12/31/2021. The report states the requested budget was \$2,013,000 with \$1,142,619 as actual expenditures. The variance of \$870,381 was due to supply chain issues and the Company not receiving three fitting trucks by year-end. The Company will incorporate the units into the 2022 budget.

Audit requested work order documentation and was provided an Excel spreadsheet that sums to the in service amount of \$970,392.57.

Non-growth/Growth Project 8840-2191 Meters

Budget	\$1,150,000
Actual	<u>\$1,401,384</u> 122% of budget
Actual minus budget	\$251,384

Attachment 1 of the filing shows the in service amount for Project 8840-2191 to be \$1,541,057.32

Per the filed testimony on Bates page 024: *“This project represents the annual purchase of natural gas meters and Automated Meter Reading (AMR) devices. The Company has an obligation under Puc 505.04 to randomly select meter accounts and perform tests on the accuracy of the meters. In addition to this process, the Company targets gas meters older than 30 years for retirement and replacement in an effort to retain the tolerance in the pick for test program. This project also funds any new meters required as a result of sales growth that occurs during the year.*

The budgeted cost for this project was \$1,150,000. Due to underruns on other projects within the Company’s capital program, there was funding available to purchase additional meters. It was anticipated that there would be longer lead times on meters in the following months, so it was advantageous to purchase additional meters in 2021. A change order was approved and issued to increase this project’s budget to \$1,500,000 and the actual amount spent was \$1,401,384.”

Audit notes that any “additional meters” purchased in 2021 due to anticipated longer lead times were likely not placed into service in 2021.

Attachment 19: 8840-2191 – Meters

- a. Business Case
- b. Capex Form
- c. Change Order
 - i. Change Order #1
 - ii. Change Order #2
- d. Project Closeout Report

The Project was identified as both Growth and Regulatory Supported thus requiring a Business Case. Attachment 1 of the filing lists the project as mandated which would not require a Business Case, however one was filed. The Business Case, dated 01/7/2021 notes the project was planned with a spending rationale of “Replenishment”. The project scope statement is *“This project represents the annual purchase of natural gas meters required for Liberty Utilities (Energy North Natural Gas) Corp. The scope is for the purchase and receipt of meters and AMR (Automated Meter Reading) devices.”* Authorizations were documented to be:

Senior Director/Director	up to \$250,000	R. Foley signed 01/07/2021
Senior VP/VP	up to \$500,000	R. MacDonald signed 02/11/2021
State President	up to \$500,000	S. Fleck signed 02/12/2021
Regional President	up to \$3,000,000	J. Sweeney signed 03/09/2021

The CapEx Form dated 01/2021 did not reflect an actual requested capital dollar figure on the first page, but did show \$1,150,000 on the third page. The Form noted that the Meter Purchases project is a planned project, representing both Growth, Regulatory Supported, and Discretionary. The Project description is as noted in the Business Case scope above.

The CapEx Form notes that this project is related to growth or customer connection. *“Replacement meters that are on our system are identified by gas operations based on annual testing requirements. All meters greater than 30 years old are removed from service. Some population of the new meters will also be used to support customer growth. The specific locations develop as the year progresses.”* Audit requested clarification of the replacement percentage vs. new growth percentage, and was told that 80% are replacements and 20% considered for new customers. That percentage considered for new customers calculates to \$308,211.46 of the total project \$1,541,057.32, therefore reducing the Project total to \$1,232,845.86. **Audit Issue #2**

Authorizations noted on the Capex Form were documented to be:

Senior Director/Director	up to \$250,000	R. Foley 02/08/2021
Senior VP/VP	up to \$500,000	R. MacDonald 02/11/2021
State President	up to \$500,000	S. Fleck 02/12/2021
Regional President	up to \$3,000,000	J. Sweeney 03/09/2021

A Change Order Form dated 11/22/2021 indicated the reason for the \$100,000 increase to the original budget of \$1,150,000, bringing the total budget to \$1,250,000 was “*advanced purchase of meter in anticipation of longer lead times in coming months.*” Authorizations were noted to be:

Senior Director/Director	up to \$250,000	R. Mostone 11/23/2021
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A second Change Order Form dated 11/22/2021 indicated the reason for an additional \$250,000 increase to be “*advance purchase of meter in anticipation of longer lead times in coming months*”. The request increased the original \$1,150,000 Business Case and Capex budget up to \$1,500,000. Authorizations were noted to be:

Senior Director/Director	up to \$250,000	R. Mostone 12/21/2021
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A Project Closeout Report dated 02/10/2022 was electronically signed only by the Project Lead on 02/10/2022. The Project Sponsor and Operations Manager were identified but the signatures were not on the individual form provided to Audit. The report reflected the original budget amount of \$1,150,000 and total expenditures of \$1,401,384. The variance of \$251,384 is support by Change Orders #1 and #2 totaling \$350,000.

Audit requested bidding information for the meter project and Liberty noted that there were no bidders or RFPs issued for this project. Liberty noted, “*We use Itron for meters and purchase them each year to have a stock for replacements, testing and new customers.*”

Audit selected three invoices to review from the Meters project, all from job 402091-38102. Two invoices were from the same vendor, Elster American Meter Company. The first invoice was dated 1/22/2021 and notes a purchase order date of 11/19/2020. The invoice total was 72,489.95 with \$1,899.95 being charged to a different account for freight. \$70,590 was charged to this job for the actual meters. The second Elster invoice reviewed was dated 1/28/2021 with a purchase order date of 10/29/2020. The invoice totaled \$20,732.18 which included freight, China Tariff Surcharge, installation and actual meters. The meters totaled \$18,750, which is the amount that was charged to this work order.

Audit requested work order documentation and was provided an Excel spreadsheet that sums to the in service amount of \$1,541,057.32.

8843-1819 Keene Expansion CNG Phase I Expansion

Budget	\$100,000
Actual	<u>\$659,613</u> 659% of budget

Actual minus Budget \$559,613

The in service amount noted on Attachment 1 of the filing is \$659,613.20.

The Settlement Agreement, Docket DG 20-105, approved the recovery of Phase I costs of the Keene Conversion to Compressed Natural Gas (CNG).

Per the filed testimony on Bates page 025: *“This project blanket included three work orders related to the temporary CNG facility in Keene and supported the 2018 capital investment required to gas up the newly installed line on Production Avenue and convert Monadnock Marketplace from propane air to natural gas. The process included shutting down service, removing the propane air, pressure testing the line to 90 psig and then introducing the natural gas into the existing pipeline. Customers were converted under a separate job number. 1) Work order 18301 captured all work associated with the temporary CNG site at Production Avenue and included design and permitting as well as labor and materials to convert pipeline from propane air to natural gas. The total cost for this work was \$455,725. 2) Work order 18303 captured all labor and materials associated with pipe, valve, meter set, EFV, and purge points installation. Total cost for this work was \$11,707, and 3) Work order 18304 captured all labor and material associated with conversion of customer appliances. The total cost for this work was \$116,364. In addition, there was \$75,000 for original setup charges. In total, the amount that was deferred for recovery in this second step was \$659,613.*

Attachment 20: 8843-1819 – Keene CNG Expansion Phase I

- a. Business Case
- b. Capex Form
- c. Change Order – N/A
- d. Project Closeout Report – N/A

The Project was identified as Discretionary thus requiring a Business Case. The Business Case, dated 01/08/2018 notes in the recommendation the same testimony stated above. The Business Case was signed by Tisha Sanderson, the Director of Finance, and Richard MacDonald, the Director/VP on 01/09/2018.

The Capex Form is not dated but shows the project start date as 1/1/2018 and the end date as 12/31/2018. The type of project was noted as growth with an expected cost of \$100,000; however, on the Capex Form where asked if the project is growth related it is stated “No”. Authorizations were documented to be the same as the Business Case noted above including the Requesting Party, Shawn Furey, on 01/08/2018.

There were no Change Order Forms issued for the Keene CNG Expansion Phase I.

There was no Project Closeout Report issued for project 8843-1819. Audit questioned why this was the case and Liberty noted that *“Project close out forms are filled out when they project is completed. While these went into service in 2021, they weren’t completed by 12/31/2021 so a close out for is not required. Once they are fully completed, a close out for will be filled out”*.

Audit selected eight invoices to review from the Keene Phase I Expansion project.

The first invoice reviewed from job 43C18821-18301 was \$7,732.50 for the installation of a chain-link fence with barbed wire. The invoice was dated 11/3/2017 and totaled \$10,750. There was a deposit paid and a credit which reduced the invoice total to \$7,732.50. Additional work was added to the invoice in the amount of \$800 making the balance due \$8,532.50. The amount included in the Step 2 in service amount is \$7,732.50.

Audit reviewed an invoice in the amount of \$26,330 for pressure testing, also from job 43C18821-18301. Supporting documentation to the invoice included a contract with the subcontractor in which Audit verified the rates without exception. The invoice was dated December 2017.

A third invoice from the same job was reviewed. The invoice was dated 6/7/2017 in the amount of \$11,947.20. The invoice was for professional services to support the permitting of the temporary CNG equipment. The invoice showed the hours, rate and total.

Audit also reviewed an Eversource bill for electricity charges at the Production Ave site in the amount of \$211.31. The invoice was dated 2/1/2022. The settlement agreement states that *“As part of the second step adjustment, the Company shall be allowed to update the recovery of the Phase I costs to account for the revenue and costs associated with additional Phase I customers who began taking service or committed to take service on or before August 1, 2022”*.

A fifth invoice from job 43C18821-18301 was reviewed in the amount of \$17,350. The invoice was dated 9/28/2017 and notes it was for the clean up and paving restoration of CNG site in Keene.

The final invoice from job 43C18821-18301 reviewed was for electrical services provided at the Production Ave temporary CNG plant. The invoice was dated 1/15/2018 and was for the amount of \$119,981. Liberty provided the purchase order from 8/3/2017 for the electrical work.

Audit reviewed an invoice from job 43C18821-18303 in the amount of \$14,795.00. The invoice was dated August 14, 2017 and was for \$14,680 was charged to this job while the remaining \$115 was charged to a different job.

A second invoice was reviewed from job 43C18821-18303 in the amount of \$36,337.96. The invoice was dated 8/26/2017 and was for the installation of pipe. The invoice noted the price per foot and the total. Also included in the total is the installation of a riser.

Conclusion

Based on the limited review of the selected projects, it appears that the reported 2021 Non-growth assets placed in service and recommended for inclusion in the Step are:

<u>Project Number</u>	<u>Project Name</u>	<u>Attachment 1</u>		
		<u>In Service \$\$</u>	<u>Recommended</u>	<u>Difference</u>
8840-2011	Main Replacement LPP-Restoration	\$ 2,045,660.95	\$ 2,045,660.95	\$ -
8840-2024	Nashua Paving	\$ 531,718.59	\$ -	\$ (531,718.59) Page 8
8840-2102	Meter Protection Program	\$ 484,377.56	\$ -	\$ (484,377.56) Audit Issue #1
8840-2103	Cathodic Protection Program	\$ 511,290.52	\$ 511,290.52	\$ -
8840-2105	Replacement Services Random	\$ 605,038.33	\$ 605,038.33	\$ -
8840-2110	Leak Repairs	\$ 1,325,263.84	\$ 1,321,934.13	\$ (3,329.71) Audit Issue #2
8840-2111	Main Replacement LPP	\$ 8,128,527.75	\$ 8,128,527.75	\$ -
8840-2113	Main Replacement Fitting LPP	\$ 560,974.62	\$ 560,974.62	\$ -
8840-2114	k Meter Replacement Program	\$ 380,281.58	\$ 380,281.58	\$ -
8840-2115	Aldyl-A Replacement Program	\$ 110,184.07	\$ 110,184.07	\$ -
8840-2116	Main Replacement Reactive	\$ 350,593.36	\$ 350,593.36	\$ -
8840-2118	Purchase Misc Capital Equipment & Tools	\$ 247,678.76	\$ 247,678.76	\$ -
8840-2123	Main Replacement City/State Construction	\$ 7,864,635.64	\$ 7,864,635.64	\$ -
8840-2125	Service Replacement Fitting City/State Construction	\$ 549,782.02	\$ 549,782.02	\$ -
8840-2131	Gas System Planning & Reliability	\$ 959,389.01	\$ 959,389.01	\$ -
8840-2138	IT	\$ 351,408.12	\$ 63,514.90	\$ (287,893.22) Audit Issue #2
8840-2190	Transportation	\$ 970,392.57	\$ 970,392.57	\$ -
8840-2191	Meters	\$ 1,541,057.32	\$ 1,232,845.86	\$ (308,211.46) Audit Issue #2
8843-1819	Keene Expansion CNG Phase I Expansion	\$ 659,613.20	\$ 659,613.20	\$ -
		<u>\$ 28,177,867.81</u>	<u>\$ 26,562,337.27</u>	<u>\$ (1,615,530.54)</u>

The recommended figures above have not been adjusted for what Audit considers an overstatement of Plant based on the inclusion of depreciation expense within the BRD labor burden posted to CWIP as discussed in the text of this report.

Audit Issue #1 Meter Protection Program

Background

The Company included on the Non-growth listing of Attachment 1 a 2021 spend of \$484,377.56 related to Project 8840-2102 Meter Protection Program.

Issue

The filed testimony on Bates page 015 noted *“this project blanket covers the protection of customer meter sets, including both residential and commercial customers. The primary driver for the protection programs is to preserve customer meters sets that are at risk of being hit by vehicles, which can lead to equipment damage and potentially hazardous leaks.”*

Puc 505.01(c) states: *“Meter installations shall be protected from anticipated or potential dangers, including but not limited to vehicles, ice, snow, flooding, or corrosion.”*

In addition, Puc 506.01(a) incorporates 49 CFR Parts 191, 192, 193, 198 and 199. 49 CFR 192.353(a) *“Each meter and service regulator, whether inside or outside a building, must be installed in a readily accessible location and be protected from corrosion and other damage, including, if installed outside a building, vehicular damage that may be anticipated. However, the upstream regulator in a series may be buried.”*

Recommendation

Audit recommends that the Company comply with Puc 500 rules and 49 CFR 192. Audit also recommends that any cost to retrofit meters for compliance with Puc 505.01 (c) and 506.01(a) be borne by shareholders not ratepayers.

Company Comment

The Company does not agree with this finding. The Company addressed the same issue in Docket DG 20-105 2020 Step Adjustment audit which arose from an NOPV that not only included civil penalties, but it also included a Safety Division proposed condition of:

In reviewing the procedures listed in Liberty’s Chapter 7 - Customer Meters and Service Lines, Subchapter 7-A Meters and Regulators, the Safety Division believes the procedures should be amended to remove the 2 foot reference that conflicts with MTRS 6060. If the intent is for that to apply for Massachusetts only that should be explicitly stated. Procedure 6.1 and 6.2 can be further improved if Liberty explicitly states that drive-through locations that have meter sets in the vicinity of the drive-through area shall have meter protection since they are exposed to moving vehicles continuously throughout the day. This would apply to fast food restaurants, banking locations, pharmacies and other similar commercial buildings that are within Liberty’s distribution systems. This

provision would apply regardless of curb heights and distances from curb lines, unless it can be confirmed that such potential damage could occur.

1. Liberty shall within 60 days of receipt of this compliance action modify and update its procedures within its O&M manual to add explicit statements regarding meter protection at drive-through locations and remove any conflicting language regarding written procedures and MTRS 6060. A notification shall be made to the Safety Division that this has been amended and associated bulletins have been sent to crews and contractors and other personnel who install, maintain, inspect, survey or perform duties that are near meters sets. In addition, meter protection should be added to the 101 Loudon Road site.

The Company's original procedures complied with Puc 500 and 49 CFR 192. Given the requirement by the Safety Division for Liberty to amend its procedures, the Company had to spend the additional money in 2020 to protect all meters at fast food restaurants, banking locations, pharmacies, and other similar commercial buildings that are within Liberty's distribution systems to meet the requirements of the updated procedure within its O&M manual. Otherwise, the Company would be out of compliance. These costs do not represent a penalty imposed by the Safety Division, but represent work performed by the Company to comply with recommended changes to its procedures in order to better provide safe service to its customers. Therefore, the \$484,377.56 should be included in the step adjustment.

Audit Comment

Audit appreciates the response by the Company, but reiterates the Issue as stated. The Company itself indicated the costs were the result of substandard safety conditions found during field inspections and the notice of possible violations received from the PUC Safety Division.

Audit Issue #2 Recommended Adjustments

Background

Audit reviewed Excel spreadsheets for all nineteen projects included in the Step 2 Attachment 1 of the filing.

Issue

8840-2110 Leak Repairs – Audit reviewed the Q3 2021 leak survey invoice and supporting documentation. Seven of the invoices charged to the Q3 leak survey work order were from 2020 and were noted to be past due. Three of the invoices were dated 5/15/2020 totaling \$4,581.48, three others were dated 5/22/2020 totaling \$4,408.89 and the last invoice was dated 10/12/2020 for \$1,341.07. Audit recommends removing a total of \$10,331.44 from the Q3 non-labor total of \$166,464.23, resulting in a new total of \$156,132.79. The new non-labor amount of \$156,132.79 should then be multiplied by 32.26% resulting in the total being charged to the capital work order to be \$50,368.43. Liberty should reduce the amount booked to the 2021 work order by \$3,329.71 (\$53,698.14 less \$50,368.43).

8840-2191 Meters – The CapEx Form noted that the Meter Purchases project is a planned project, representing both Growth, Regulatory Supported, and Discretionary. Audit requested clarification of the replacement percentage vs. new growth percentage, and was told that 80% are replacements and 20% considered for new customers. That percentage considered for new customers calculates to \$308,211.46 of the total project \$1,541,057.32, therefore reducing the Project total to \$1,232,845.86.

Audit also notes that “additional meters” were purchased in 2021 due to anticipated longer lead times. These meters were not likely to be placed into service in 2021.

8840-2138 IT - Audit reviewed the work order detail and noted the \$287,893.22 for job 402138-30303 was an accrual for the “September Capital Direct Billing” booking 9/30/2021. Accruals reverse the first of the following month to reflect a net zero. The work order detail does not show a 10/1/2021 reversal of the accrued amount. Audit also noted this is the only accrual booked to the work order as 16 CWIP entries were for labor and 2 CWIP entries were for vouchers totaling \$2,091.54.

Recommendation

8840-2110 – Audit recommends Liberty reduce the amount booked to the 2021 work order by \$3,329.71 (\$53,698.14 less \$50,368.43).

8840-2191 – Audit recommends Liberty reduce the project total by 20%, \$308,211.46 to an adjusted total \$1,232,845.86.

8840-2138 – Audit recommends removing the September accrual amount of \$287,893.22 from the project total. Audit also recommends that the additional meters purchased in 2021 but not placed in service should be quantified and removed from the filing.

Company Comment

The Company agrees that the invoices from 2020 should be excluded from the 2021 Step Adjustment.

The Company provided the split of non-growth and growth meters of 80/20 and agrees to remove the 20% of growth meter costs of \$308,211.46.

The Company agrees that the accrual should be removed from the filing.

The Company does not agree that additional meters purchased in 2021 should be removed from the filing. Meters are pre-capitalization items and as such go into service when they are received and the labor to install is expensed at the time of installation. The lead time on meters has been anywhere from six to twelve months and without purchasing additional meters the Company may be without meters in the event that a meter is damaged or is not registering correctly.

Audit Comment

Audit concurs with the Company's responses. Audit reiterates that the additional meters purchase in 2021 but not placed in service should be quantified and removed from the filing. The Settlement Agreement from Docket DG 20-105 states, "*Step 2 shall reflect an increase to account for certain capital projects placed in service during calendar year 2021*". It is understood that while meters may be pre-capitalized, that may not be an appropriate addition for a Step adjustment, and defers to the Regulatory staff for clarification.

Audit Issue #3 Project Closeout Report

Background

Audit reviewed the CapEx, Change Orders and Project Closeout Reports for all nineteen projects included in the Attachment 1.

Issue

The Project Closeout Report for the following projects do not contain a date the report was filled out or a completion date:

- 8840-2111
- 8840-2113
- 8840-2118
- 8840-2125

Recommendation

Audit recommends that all project documentation be completely filled out. Although the approving signatures on the Report approve the move from CWIP to Plant in Service, an actual completion date on the Report should be noted.

Company Comment

The Company agrees with Audit and will ensure project close out forms are completely filled out in the future.

Audit Comment

Audit concurs with the Company's response.