

STATE OF NEW HAMPSHIRE
Intra-Department Communication

DATE: April 28, 2023

FROM: NH Department of Energy, Division of Enforcement Audit Staff

SUBJECT: Hampstead Area Water Company Inc.
DW 23-020 Step Adjustment II
FINAL Audit Report

TO: Tom Frantz, Director, Regulatory Division
Jayson Laflamme, Assistant Director, Gas/Water Division
Anthony Leone, Utility Analyst

Introduction

On March 1, 2023, Hampstead Area Water Company, Inc. (HAWC, Company) filed its Step II final cost and schedules, pursuant to the May 6, 2022 Settlement Agreement filed in docket DW 20-117. The Settlement Agreement was approved by Order No. 26,635, on June 2, 2022—with a second revised approval on July 20, 2022. The assets contemplated for inclusion in the Step II adjustment were reported within the filing—Schedules 1 through 4b—totaling \$2,856,257, where \$(2,934,177) of that addition was contributed by the developer and recorded as a contribution in aid of construction (CIAC). The following depicts the year 2021 additions for the Step II adjustment, as reported within the filing:

	<u>Asset</u>	<u>CIAC</u>
Shannon Road Water Main	\$ 690,542	\$ (690,542)
H2 Base Project	\$1,557,296	\$ (1,544,332)
H2 Meditation Project	\$ 218,782	\$ (218,782)
Main St. PRV Project	\$ 239,588	\$ (239,588)
Sawyer Tank Mixer Project	\$ 59,358	\$ (59,358)
East Road Water Main	\$ 181,575	\$ (181,575)
Retirements	\$ (90,884)	\$ -0-
Total 2021 Projects	\$2,856,257	\$(2,934,177)

The filing further details each proposed step increase by general ledger account, the depreciation rate, and accumulated depreciation through 2021. The amortization rate and accumulated amortization relating to the projects' CIAC was also included.

An audit of the Step I adjustment was conducted and finalized in a report issued October 11, 2022. A hearing regarding the request for approval of the Step I adjustment was held on April 12, 2023, whereby Exhibits 20-22 were filed. On April 19, 2023, a replacement for the filed Exhibit 20 was submitted and marked as "Exhibit 20a" and the Commission's acceptance of Exhibit 20a was requested.

Audit reviewed the Settlement Agreement, noting the following as stated on page 7: *“The Settling Parties agree that the Company shall be allowed a [Step II adjustment], primarily based upon three components: (1) the costs associated with post-test year plant additions placed in service between January 1 through December 31, 2021; (2) post-test year plant retirements; and (3) various other operating income adjustments.”* Additionally, the Settlement Agreement stated, *“The Settling Parties agree that the proposed Step II adjustment, subject to DOE Audit Staff and Settling Parties’ review, will result in an increase not to exceed \$220,023 in the Company’s revenue requirement[...].”*

Continuing Property Records (CPR)

The Sage Fixed Asset system is an all-encompassing online system which demonstrates the following: the asset depreciation years and rate; the system and service number; copies of supporting invoices, as applicable; the descriptions and locations of assets; the acquisition date; the system name, town, and general ledger account number for the plant; the depreciation expense and accumulated depreciation; the name of the vendor and serial numbers, as applicable; the contribution in aid of construction detail, as applicable; the replacement value and warranty date, as applicable; the asset total for book and tax purposes; as well as other information among other items. The Company explained that as the original costs were allocated on the books in 2021, they realized that some of the costs were incorrectly allocated. When the Step II agreement was finalized, the Company reallocated the costs; whereby, the filing corrected the aforementioned incorrect allocation to the general ledger. The Company stated that they are waiting for approval of the Step II before adjusting the general ledger to the filing. Consequently, the Company confirmed that the Fixed Asset Summaries (Internal and CIAC) and CPRs will not tie to the costs filed, as reported by plant account. **AUDIT ISSUE #1**

Refer to the Plant Accounts section for details regarding the general ledger review of the Step II additions.

Project Costs

SIA Agreement and H2 Contract

Audit reviewed the Southern NH Regional Water Interconnect Project (SIA) agreement, as established between the Company and the Town of Derry, Manchester Water Works, Town of Windham, Hampstead Area Water Company, Inc., Town of Salem, the Town of Plaistow, and Pennichuck East Utility, Inc., as well as the H2 contract with Lewis Builders Development, Inc. The SIA agreement included the obligation that the Town of Salem and the Town of Plaistow had to the Company—for the Shannon Road Project and the East Road Project, respectively. The H2 contract was between HAWC and Lewis Builders Development for construction on the H2 project. The SIA agreement detailed the infrastructure, operation, and terms for the rates/costs/fees.

Shannon Road Water Main \$690,542 and CIAC \$(690,542)

The Shannon Road Water Main was a new project for water mains located in Atkinson and in Salem, which connected the HAWC system to the Salem location. The addition is part of the Company’s participation in the SNHRWP.

Audit reviewed the total cost for the Shannon Road Water Main that was reported on Attachment C, Schedule 3a, of the filing. The following reflected the total asset additions and related CIAC, as filed:

Account	Description	Asset Costs	CIAC Amount	Depr. Rate	½ Year Accum Depr.	Amort. Rate	½ Year Accum. Amort.
331	Mains	\$ 677,542	\$ (677,542)	2.00%	\$ 6,775	2.00%	\$ 6,775
335	Hydrants	13,000	(13,000)	2.00%	130	2.00%	130
	Total	\$ 690,542	\$ (690,542)		\$ 6,905		\$ 6,905

The filed costs for the Shannon Road Water Main additions were confirmed to the corresponding general ledger plant accounts. Although a journal entry—totaling \$677,542 on 8/13/2021—was debited to account #331, Transmission and Distribution Mains, and verified to the filed Attachment C, Schedule 3a, Audit noted a variance of \$6,000 between the \$677,542 in costs filed and the \$683,542 in costs reported on the Fixed Asset Summary Report (Internal). Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the allocation of costs.

Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

Audit reviewed the CPR information, as provided through the Sage accounting software, and confirmed the August 13, 2021 in-service date for the Shannon Road Water Main project. The CPR was properly identified as to location, asset depreciation, and CIAC related information.

The project was completed by the Town of Salem and provided as CIAC from NHDES. The Company explained that the NHDES paid the Town of Salem to construct the Shannon Road Project and the Town of Salem then gave the utility plant to HAWC. As such, the Bill of Sale from the Town of Salem—to the buyer, HAWC—was reviewed and Audit confirmed the sale amount of \$690,542, dated 8/13/2021. All CIAC related assets were verified to the Fixed Asset Summary Report (CIAC) for the period ended December 31, 2021. The reports were downloads of the HAWC general ledger system. Audit verified the CIAC Fixed Asset Summary Report to the appropriate general ledger account 271, Contributions in Aid of Construction. Audit noted the monthly amortization expense recorded on general ledger account 272, Accumulated Amortization of Contributions in Aid of Construction.

Audit requested copies of the invoices paid for the construction of the Shannon Road Project. The Company explained that the Town of Salem constructed the project; therefore, only the Bill of Sale was provided to HAWC, itemizing the costs for the project. Audit reviewed the August 13, 2021 Bill of Sale and noted that the costs billed on the project were \$677,542 for the transmission and distribution mains with 12” piping, as well as the purchase and installation of

two hydrants at \$6,500 per hydrant. Audit verified the project’s total cost of \$690,542 to the filing Attachment C, Schedule 1. Refer to the Plant Accounts section for details regarding the review of the project costs by general ledger account.

H2 Project \$2,705,024

The H2 Project was constructed by HAWC and includes the following costs, as reported on the filed Attachment C, Schedule 1:

<u>Project</u>	<u>Additions</u>
H2 Base Project	\$ 1,557,296
H2 Meditation Lane	\$ 218,782
H2 Main St. PRV	\$ 239,588
H2 Sawyer Mixer Ave.	\$ 59,358
Total H2 Project	\$ 2,075,024

Audit reviewed the supporting Fixed Asset Summary Reports (Internal) and the CPR information and confirmed the \$2,075,023 in costs filed for the total H2 Project, as well as the in-service date of 12/31/2021. Audit deemed the \$1 variance, between the Sage Fixed Asset Reports (Fixed Asset Summary Report and CPR) and the filed Schedule 1, as immaterial. Although the sum of the total costs filed for the H2 projects tied to the grand total on the Fixed Asset Summary Reports and the CPRs, Audit was not able to verify the individual costs per asset account number, as depicted on the filed Attachment C, Schedule 3a. The Company explained that the costs for the H2 project were reallocated for the Step II submitted schedules and they stated that these items will be adjusted on the general ledger to agree with the filing after the Step II is approved. Audit acknowledged that the filed total asset cost of \$2,075,023, for the total H2 project, was not impacted by the reclassification of costs within the plant accounts. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report.

Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

The CIAC for the H2 projects was received as a grant by NH DES, as part of the Drinking Water and Groundwater Trust (DWGT). Audit reviewed the disbursement log from NH DES, as well as the Company’s Final Request for Disbursement document, dated 11/30/2021. The total grant disbursed was for \$3,407,568. The Company explained that, of the \$3,407,568 allocated as CIAC, \$1,302,918 was for the H1 project in Step I and \$2,075,024 was for the H2 project in Step II. The Company acknowledged that, “*The total [\$3,377,942] of the 2 projects is \$29,626 less than the total grant.*” **AUDIT ISSUE #2**

Audit confirmed the 12/31/2021 journal entry of \$2,075,023 for the grant amount that was allocated to the H2 project and deemed the \$1 variance as immaterial. The journal entry was confirmed to account 271, Contribution in Aid of Construction.

The following depicts Audit’s calculation of the H2 projects’ total CIAC amount, based on the filed Attachment C, Schedule 1:

<u>Project</u>	<u>CIAC</u>
H2 Base Project	\$ 1,544,332
H2 Meditation Lane	\$ 218,782
H2 Main St. PRV	\$ 239,588
H2 Sawyer Mixer Ave.	\$ 59,358
Total H2 Project CIAC	\$ 2,062,060

Audit confirmed the \$2,062,060 filed CIAC for the H2 projects—that was calculated by Audit based on the filed Schedule 1—to the Fixed Asset Summary Report (CIAC), as of 12/31/2021. Additionally, the Company explained that there was \$12,964 of non-CIAC items that were not part of the grant and that they are correctly accounted for in the Step 2 calculations submitted to the PUC. The following represents Audit’s calculation of the adjusted CIAC amount for the H2 projects, based on the Fixed Asset Summary Report (CIAC):

H2 Project CIAC grand total per report	\$ 2,942,390
Less: Shannon Road (not part of H2)	\$ (690,542)
Less: items not related to Step 2	\$ (176,816)
Less: Non-CIAC items originally booked as CIAC for the H2 Base Project	\$ (12,964)
Adjusted CIAC amount	\$ 2,062,068

That Company noted that the \$181,575 CIAC amount for the East Road Water Main was recorded on the 2022 general ledger; thus, it was not included on the CIAC Fixed Asset Summary Report for the period ended December 31, 2021. Refer to the East Road Water Main \$181,575 and CIAC \$(181,575) section of the report for further details regarding entries made in 2022. Audit calculated a variance of \$(8), between the Fixed Asset Summary Report (CIAC) amount of \$2,062,068 and the total of \$2,062,060 of CIAC filed for the H2 projects. Audit deemed the \$(8) variance as immaterial. Audit verified the Fixed Asset Summary Report (CIAC) to the appropriate general ledger account 271, Contributions in Aid of Construction. Audit noted the monthly amortization expense recorded on general ledger account 272, Accumulated Amortization of Contributions in Aid of Construction.

H2 Base Project \$1,557,296 and CIAC \$(1,544,332)

The H2 Base Project consisted of the renovation of nine existing pump houses in Atkinson and Hampstead, totaling \$1,557,296. The Company explained that the renovation of the pump houses included various controls and chemical feed pumps.

The filing Schedules 1 – 3b reflected the total asset additions and related CIAC, as follows:

<u>Account</u>	<u>Description</u>	<u>Asset Amount</u>	<u>CIAC Total</u>	<u>Depr. Rate</u>	<u>½ Year Accum Depr.</u>	<u>Amort. Rate</u>	<u>½ Year Accum. Amort.</u>
304	Structures	\$ 224,307	\$ (222,440)	2.50%	\$ 2,804	2.50%	\$ 2,781
311	Pumping Equipment	273,491	(271,214)	10.00%	13,675	10.00%	13,561
320	Treatment Equipment	<u>1,059,498</u>	<u>(1,050,678)</u>	<u>3.60%</u>	<u>19,071</u>	<u>3.60%</u>	<u>18,912</u>
	Total	\$1,557,296	\$(1,544,332)		\$35,549		\$ 35,253

Audit reviewed the Fixed Asset Summary Report (Internal) and the CPR information. Although the sum of the total costs filed for the H2 projects tied to the grand total on the Fixed

Asset Summary Reports and the CPRs, Audit was not able to verify the individual costs per asset account number, as depicted on the filed Attachment C, Schedule 3a. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the allocation of costs. Refer to the H2 Project \$2,705,024 section of the report for details confirming the in-service date of the additions, as well as the filed total H2 project costs that were verified to the filing.

Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

The H2 Base Project was constructed by the Company and \$1,544,332 was provided as CIAC. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the CIAC for the project.

Audit sampled expenses from ACM Group, the Town of Atkinson, and Weston and Sampson Engineers. The following includes invoices that were reviewed in support of the expenses incurred and verified to the total expenses entry on the general ledger:

ACM Group, Inc. – Audit reviewed a 5/25/2021 invoice for the inspection of a shed “per contract”. A copy of the contract for the H2 project was provided and Audit verified the contractor’s obligation to perform inspections on the site.

Town of Atkinson – A copy of the check, in the amount of \$405, was reviewed for the building permit fee. Audit also reviewed a receipt for the payment, as well as an email verifying the payment to the Town of Atkinson as part of the SNHRWP.

Weston and Sampson Engineers – Three invoices, totaling \$47,414, were reviewed for construction services involving design, and chloramine conversion. Audit confirmed the date of the invoices in February, April and November of 2021.

The Company provided Job Cost Transaction Reports which summarized the employee labor for the H2 project. Audit verified a sample of employee time sheets and to the Job Cost Transaction Reports and to the general ledger.

H2 CO Meditation Project \$218,782 and CIAC \$(218,782)

The Meditation Project was for the renovation of an existing booster station in Atkinson. The renovation included new pumps, piping, a building addition, controls, and a generator. The addition is part of the Company’s participation in the SNHRWP. The filing Schedules 1 – 3b reflected the total asset additions and related CIAC, as follows:

Plant Account	Account Description	Asset Amount	CIAC Total	Depr. Rate	½ Year Accum Depr.	Amort. Rate	½ Year Accum. Amort.
304	Structures	\$ 50,000	\$ (50,000)	2.50%	\$ 625	2.50%	\$ 625
311	Pumping Equipment	<u>168,782</u>	<u>(168,782)</u>	10.00%	<u>8,439</u>	10.00%	<u>8,439</u>
	Total	\$ 218,782	\$ (218,782)		\$ 9,064		\$ 9,064

Audit reviewed the supporting Fixed Asset Summary Report (Internal) and the CPR information. Although the sum of the total costs filed for the H2 projects tied to the grand total on the Fixed Asset Summary Reports and the CPRs, Audit was not able to verify the individual costs per asset account number, as depicted on the filed Attachment C, Schedule 3a. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the allocation of costs. Refer to the H2 Project \$2,705,024 section of the report for details confirming the in-service date of the additions, as well as the filed total H2 project costs that were verified to the filing.

Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

The H2 Meditation Project was constructed by the Company and \$218,7820 was provided as CIAC. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the CIAC for the project.

Audit requested copies of the invoices for the Meditation project costs. The Company provided a copy of the Lewis Builders Project Requisition. The Meditation Lane project was a change order on the requisition. Audit verified the contractor’s application and certification for payment, which included the \$218,782 total for the Meditation Lane Project’s change order. Audit confirmed that the completion of the work covered by the application for payment was signed on 11/30/2021.

H2 CO Main Street PRV Project \$239,588 and CIAC \$(239,588)

The PRV (Pressure Reducing Valve) project was for the renovation of the existing PRV station in Atkinson. The renovation included new piping, valves, controls, and electrical work. The addition is part of the Company’s participation in the SNHRWP. Audit reviewed the total cost for the Main St. PRV project that was reported on Attachment C, Schedules 1 – 3b, of the filing. The following reflected the total asset additions and related CIAC, as filed:

Account	Description	Asset Amount	CIAC Total	Depr. Rate	½ Year Accum Dep.	Amort. Rate	½ year Accum. Amort.
304	Structures	\$ 89,588	\$ (89,588)	2.50%	\$ 1,120	2.50%	\$ 1,120
311	Pumping Equipment	150,000	(150,000)	10.00%	7,500	10.00%	7,500
335	Hydrants	-	-	2.00%	-	2.00%	-
	Total	\$ 239,588	\$ (239,588)		\$ 8,620		\$ 8,620

Audit reviewed the Fixed Asset Summary Report (Internal) and the CPR information. Although the sum of the total costs filed for the H2 projects tied to the grand total on the Fixed Asset Summary Reports and the CPRs, Audit was not able to verify the individual costs per asset account number, as depicted on the filed Attachment C, Schedule 3a. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the allocation of costs. Refer to the H2 Project \$2,705,024 section of the report for details confirming the in-service date of the additions, as well as the filed total H2 project costs that were verified to the filing.

Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

The H2 Main St. PRV Project was constructed by the Company and \$239,588 was provided as CIAC. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the CIAC for the project.

Audit requested copies of the invoices for the Main St. PRV project costs. The Company provided a copy of the Lewis Builders Project Requisition. The Main St PRV project was a change order on the requisition. Audit verified the contractor’s application and certification for payment, which included the \$239,588 total for the Main St. PRV Project’s change order. Audit confirmed that the completion of the work covered by the application for payment was signed on 11/30/2021.

H2 CO Sawyer Tank Mixer Project \$59,358 and CIAC \$(59,358)

The Sawyer Tank Mixer Project was to replace the mixer in the existing 400,000 gallon Sawyer Avenue tank. The Company described the mixer as circulating the water in the tank to prevent it from getting stagnate. The addition is part of the Company’s participation in the SNHRWP. Audit reviewed the total cost for the Sawyer Tank Mixer Project that was reported on Attachment C, Schedules 1 – 3b, of the filing. The following reflected the total asset additions and related CIAC, as filed:

Account	Description	Asset Amount	CIAC Total	Dep. Rate	½ Year Accum Dep.	Amort. Rate	½ year Accum. Amort.
320	Treatment Equipment	\$ -	\$ -	3.60%	\$ -	3.60%	\$ -
330	Distribution Reservoirs & Standpipes	<u>59,358</u>	<u>(59,358)</u>	2.20%	<u>653</u>	2.20%	<u>653</u>
	Total	\$ 59,358	\$ (59,358)		\$ 653		\$ 653

Audit reviewed the Fixed Asset Summary Report (Internal) and the CPR information. Although the sum of the total costs filed for the H2 projects tied to the grand total on the Fixed Asset Summary Reports and the CPRs, Audit was not able to verify the individual costs per asset account number, as depicted on the filed Attachment C, Schedule 3a. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the allocation of costs. Refer to the H2 Project \$2,705,024 section of the report for details confirming the in-service date of the additions, as well as the filed total H2 project costs that were verified to the filing.

Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

The H2 Sawyer Tank Mixer Project was constructed by the Company and \$59,358 was provided as CIAC. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the CIAC for the project.

Audit requested copies of the invoices for the Sawyer Tank Mixer Project costs. The Company provided a copy of the Lewis Builders Project Requisition. The Sawyer Tank Mixer project was a change order on the requisition. Audit verified the contractor’s application and certification for payment, which included the \$59,358 for the Sawyer Tank Mixer Project’s change order. Audit confirmed that the completion of the work covered by the application for payment was signed on 11/30/2021.

East Road Water Main \$181,575 and CIAC \$(181,575)

The East Road Water Main Project was a new project for the water main extension in Atkinson which runs to Plaistow. The addition is part of the Company’s participation in the SNHRWP. Audit reviewed the total cost for the East Road Water Main that was reported on Attachment C, Schedules 1 – 3b, of the filing. The following reflected the total asset additions and related CIAC, as filed:

Account	Description	Asset Amount	CIAC Total	Dep. Rate	½ Year Accum Dep.	Amort. Rate	½ year Accum. Amort.
331	T&D Mains	\$ 171,075	\$ (171,075)	2.00%	\$ 1,711	2.00%	\$ 1,711
333	Services	4,000	(4,000)	2.50%	50	2.50%	50
335	Hydrants	<u>6,500</u>	<u>(6,500)</u>	2.00%	<u>65</u>	2.00%	<u>65</u>
	Total	\$ 181,575	\$ (181,575)		\$ 1,826		\$ 1,826

Audit reviewed the CPR information, as provided through the Sage accounting software, and noted a 2/2/2022 in-service date for the East Road Water Main project. The Company explained that the \$181,575 amount for the East Road Water Main was recorded to the 2022 general ledger because, “*The Bill of Sale was not signed until 2022 but the assets were in place in 2021.*” Audit reviewed a copy of the Final Completion Form for the East Road Water Main project and verified the actual completion date of 11/15/21. Audit also reviewed the 2022 general ledger and confirmed the total project cost of \$181,575 to the appropriate plant accounts, as reported on Schedule 3a of the filing. Refer to the Plant Accounts section for further review of the project costs by general ledger account, including the related depreciation.

The project was completed by the Town of Plaistow and provided as CIAC from NHDES. The Company explained that the NHDES paid the Town of Plaistow to construct the East Road Water Main project and the Town of Plaistow then gave the utility plant to HAWC. As such, the Bill of Sale from the Town of Plaistow—to the buyer, HAWC—was reviewed and Audit confirmed the sale amount of \$181,575, dated 2/22/2022. The Company provided the 2022 general ledger for account 271, Contributions in Aid of Construction, and Audit verified the 2/2/2022 entry of \$181,575 on the account. Verification of the project’s completion date in 2021 is discussed in the previous paragraph.

Audit requested copies of the invoices paid for the construction of the East Road Project. The Company explained that the Town of Plaistow constructed the project; therefore, only the Bill of Sale was provided to HAWC, itemizing the costs for the project. Audit reviewed the East Road Project Bill of Sale—dated February 22, 2022—that was provided to HAWC from the Town of Plaistow. Costs billed on the project were \$171,075 for 1,280 feet of 12” main, \$4,000 for water lines to curb stop at each customers’ property line, and \$6,500 for the purchase and installation of one hydrant. Audit verified the project’s total cost of \$181,575 to the filing Attachment C, Schedule 1.

Plant Accounts

Structures and Improvements, Account 304 – per Step II Filing \$363,895

The following reflects the costs recorded on account 304, Structures and Improvements, per the filed Attachment C, Schedule 3a:

H2 Base Project	\$224,307
H2 CO Meditation	\$ 50,000
H2 CO Main St. PRV	<u>\$ 89,588</u>
Total	\$363,895

The 2021 general ledger and Sage system CPR reflected a value of \$348,175 on account #304, Structures and Improvements. Audit noted the variance of \$(15,720) between the \$363,895 filed for the H2 project costs and the \$348,175 amount recorded on the general ledger and CPR. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for details regarding the Company's cost allocation to the plant accounts.

The depreciation expense and accumulated depreciation on the Structures and Improvements account—as determined for the H2 Base, Mediation Lane, and the Main St. PRV projects—was filed as \$2,804, \$625, and \$1,120, respectively. The filing indicated that the depreciable life of the asset was 40 years, or 2.50 percent. Audit confirmed that the filed service life of the asset and depreciation rate agree with the PUC Small Water Booklet. Audit recalculated the depreciation expense and accumulated depreciation, based on the rate of 2.50% applied for the first year using the ½ year convention. Although no exceptions were noted, Audit could not verify the depreciation calculations to the CPR information due to the Company's reallocation of project costs. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details.

Of the total \$363,895 costs filed on the Structures and Improvements account, \$362,028 was reported to be CIAC, per Attachment C, Schedule 3c. Audit reviewed the Fixed Asset Summary Reports (CIAC), grouped by the general ledger asset account number, and noted a \$(13,853) variance between the \$362,028 CIAC filed for the account and the \$348,175 amount on the report. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the projects' CIAC.

Audit reviewed the Fixed Asset Summary report, as well as the Sage system, and confirmed that there were no additions to the Structures and Improvements account 304, other than the total \$348,175 noted for the H2 projects.

Pumping Equipment, Account 311 – per Step II Filing \$592,273

The following reflects the filed costs for the H2 Base Project, the H2 CO Meditation, and the H2 CO Main St. PRV—as recorded on account #311, Pumping Equipment:

H2 Base Project	\$273,491
H2 CO Meditation	\$168,782
H2 CO Main St. PRV	<u>\$150,000</u>
Total	\$592,273

The 2021 Fixed Asset Summary Report (Internal) and Sage system CPRs reflected a value of \$651,869 on account 311, Structures and Improvements. Audit noted the variance of \$59,596 between the \$592,273 filed for the H2 project costs and the \$651,869 amount recorded on the Fixed Asset Summary Report and CPR. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for details regarding the Company’s cost allocation to the plant accounts.

The depreciation expense and accumulated depreciation on the Pumping Equipment account—as determined for the H2 Base, Mediation Lane, and the Main St. PRV projects—was filed as \$13,675, \$8,439, and \$7,500, respectively. The filing indicated that the depreciable life of the asset was 10 years, or 10.00 percent. Audit confirmed that the filed service life of the asset and depreciation rate agree with the PUC Small Water booklet. Audit recalculated the depreciation expense and accumulated depreciation, based on the rate of 10.00% applied for the first year using the ½ year convention. Although no exceptions were noted, Audit could not verify the depreciation calculations to the CPR information due to the Company’s reallocation of project costs. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details.

Of the total \$592,273 costs filed on the Pumping Equipment account, \$589,996 was reported to be CIAC, per Attachment C, Schedule 3c. Audit reviewed the Fixed Asset Summary Reports (CIAC), grouped by the general ledger asset account number, and noted a \$61,873 variance between the \$589,996 CIAC filed for the account and the \$651,869 amount on the report. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the projects’ CIAC.

Audit reviewed the Fixed Asset Summary report, as well as the Sage system, and confirmed that there were no additions to the Pumping Equipment account 311, other than the total \$651,869 noted for the H2 projects.

Water Treatment Equipment, Account #320 – per Step II Filing \$1,059,498

The following reflects the filed costs for the H2 Base Project, as recorded on the Water Treatment Equipment account 320: H2 Base Project, \$ 1,059,498

The 2021 Fixed Asset Summary Report (Internal) and Sage system CPRs reflected a value of \$1,015,022 on account 320, Water Treatment Equipment. Audit noted the variance of \$(44,476) between the \$1,059,498 filed for the H2 project cost and the \$1,015,022 amount recorded on the Fixed Asset Summary Report and CPRs. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for details regarding the Company’s cost allocation to the plant accounts.

The filing indicated that the depreciable life of the asset was 28 years, or 3.60 percent. Audit confirmed that the filed service life of the asset and depreciation rate agree with the PUC Small Water booklet. Audit recalculated the depreciation expense and accumulated depreciation, based on the rate of 3.60% applied for the first year using the ½ year convention. Although no exceptions were noted, Audit could not verify the depreciation calculations to the CPR information due to the Company's reallocation of project costs. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details.

Of the total \$1,059,498 costs filed on the Water Treatment Equipment account, \$1,050,678 was reported to be CIAC, per Attachment C, Schedule 3c. Audit reviewed the Fixed Asset Summary Reports (CIAC), grouped by the general ledger asset account number, and noted a \$(35,656) variance between the \$1,050,678 CIAC filed for the account and the \$1,015,022 amount on the report. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the projects' CIAC.

Audit reviewed the Fixed Asset Summary Report (Internal), as well as the Sage system, and confirmed that there were no additions to the Water Treatment Equipment account 320, other than the total \$1,015,022 noted for the H2 projects.

Distribution Reservoirs and Standpipes, Account 330 – per Step II Filing \$59,358

The following reflects the filed costs for the H2 Sawyer Tank Mixer Project, as recorded on the Distribution Reservoirs and Standpipes account 330: H2 CO Sawyer Tank Mixer, \$59,358.

The 2021 Fixed Asset Summary Report (Internal) and Sage system CPRs reflected a value of \$59,957 on account 330, Distribution Reservoirs and Standpipes. Audit noted the variance of \$599 between the \$59,358 filed for the H2 Sawyer Tank project cost and the \$59,957 amount recorded on the Fixed Asset Summary Report and CPR. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for details regarding the Company's cost allocation to the plant accounts.

The filing indicated that the depreciable life of the asset was 45 years, or 2.20 percent. Audit noted that the filed service life of the asset and depreciation rate agree with the PUC Small Water Booklet. Audit recalculated the depreciation expense and accumulated depreciation, based on the rate of 2.20% applied for the first year using the ½ year convention. Although no exceptions were noted, Audit could not verify the depreciation calculations to the CPR information due to the Company's reallocation of project costs. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details.

Of the total \$59,358 costs filed on the Distribution Reservoirs and Standpipes account, the total \$59,358 was reported to be CIAC, per Attachment C, Schedule 3c. Audit reviewed the Fixed Asset Summary Reports (CIAC), grouped by the general ledger asset account number, and noted a \$599 variance between the \$59,358 CIAC filed for the account and the \$59,957 amount on the report. Refer to the H2 Project \$2,705,024 section of the report for details regarding the verification of the projects' CIAC.

Audit reviewed the Fixed Asset Summary Report (Internal), as well as the Sage system, and confirmed that there were no additions to the Distribution Reservoirs and Standpipes account 330, other than the total \$59,957 noted for the H2 projects.

Transmission and Distribution Mains, Account 331 – per Step II Filing \$848,617

The following reflects the filed costs for the water main projects at Shannon Road and East Road—as recorded on account 331, Mains:

<u>Account</u>	<u>Project</u>	<u>Costs</u>
331	Shannon Road Water Main	\$ 677,542
331	East Road Water Main	<u>\$ 171,075</u>
	Total	\$ 848,617

Audit confirmed that the Sage system CPRs reflected the total value of \$848,617 on account 331, Transmission and Distribution Mains. However, a variance was calculated—in the amount of \$(65,219)—between the \$848,617 filed for the Shannon Road and East Road water main project costs and the \$783,398 amount recorded on the Fixed Asset Summary Report (Internal), for the period ended 12/31/2021. In comparison, Audit noted that the CPRs for the Shannon Road and East Road water main projects were current through the dates of 12/2021 and 12/2022, respectively. Refer to the East Road Water Main \$181,575 and CIAC \$(181,575) section of the report for an explanation regarding journal entries recorded in 2022. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the reallocation of costs within the general ledger plant accounts.

The depreciation expense and accumulated depreciation on the Transmission and Distribution Mains account—as determined for the Shannon Road and East Road water main projects—was filed as \$6,775 and \$1,711, respectively. The filing indicated that the depreciable life of the asset was 50 years, or 2.00 percent. Audit confirmed that the filed service life of the asset and depreciation rate agree with the PUC Small Water Booklet. Audit recalculated the depreciation expense and accumulated depreciation, based on the rate of 2.00% applied for the first year using the ½ year convention. Audit confirmed the depreciation calculations to the filed Schedule 3a, as well as to the Sage System CPRs.

The total \$848,617 in costs filed on the Transmission and Distribution Mains account was reported to be CIAC, per Attachment C, Schedule 3c. Audit reviewed the Fixed Asset Summary Reports (CIAC), grouped by the general ledger asset account number, and noted a \$(71,219) variance between the \$848,617 CIAC filed for the account and the \$777,398 amount on the report. Refer to the East Road Water Main \$181,575 and CIAC \$(181,575) and Shannon Road Water Main \$690,542 and CIAC \$(690,542) sections of the report for details regarding the CIAC verification by project total, as well as the journal entries recorded in 2022. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the reallocation of costs within the general ledger plant accounts.

Services, Account 333 – per Step II Filing \$4,000

The following reflects the filed costs for the East Road Water Main Project, as recorded on account 333, Services: East Road Water Main, \$4,000.

Audit confirmed that the Sage system CPRs—current through the date of 12/2022—reflected the total value of \$4,000 on account 333, Service. Audit verified the amount to the Fixed Asset Summary Report (Internal) for the period ended 12/31/2022. Refer to the East Road Water Main \$181,575 and CIAC \$(181,575) section of the report for details regarding the 2022 general ledger entries.

The depreciation expense and accumulated depreciation on the Services account—as determined for East Road Water Main Project—was filed as \$50. The filing indicated that the service life of the asset was 40 years, or 2.50 percent. Audit noted that the filed service life of the asset and depreciation rate agree with the PUC Small Water Booklet. Audit recalculated the depreciation expense and accumulated depreciation, based on the rate of 2.50% applied for the first year using the ½ year convention. Audit confirmed the depreciation calculations to the filed Schedule 3a, as well as to the Sage System CPR.

The total \$4,000 in costs filed on the Services account was reported to be CIAC, per Attachment C, Schedule 3c. Audit verified the amount to the Fixed Asset Summary Report (CIAC) for the period ended 12/31/2022, grouped by the general ledger asset account number. Refer to the East Road Water Main \$181,575 and CIAC \$(181,575) section of the report for details regarding the 2022 general ledger entries, as well as details regarding the CIAC verification by project total.

Hydrants, Account 335 – per Step II Filing \$19,500

The following reflects the filed costs for the water main projects at Shannon Road and East Road—as recorded on account 335, Hydrants:

<u>Account</u>	<u>Project</u>	<u>Costs</u>
335	Shannon Road Water Main	\$ 13,000
335	East Road Water Main	<u>\$ 6,500</u>
	Total	\$ 19,500

Audit confirmed that the Sage system CPRs reflected the total value of \$19,500 on account 335, Hydrants. However, a variance was calculated—in the amount of \$17,453—between the \$19,500 filed for the Shannon Road and East Road water main project costs and the \$36,953 amount recorded on the Fixed Asset Summary Report (Internal), for the period ended 12/31/2021. In comparison, Audit noted that the CPRs for the Shannon Road and East Road water main projects were current through the dates of 12/2021 and 12/2022, respectively. Refer to the East Road Water Main \$181,575 and CIAC \$(181,575) section of the report for details regarding journal entries recorded in 2022. Refer to AUDIT ISSUE #1 within the Continuing Property Records (CPR) section of the report for further details regarding the reallocation of costs within the general ledger plant accounts.

The depreciation expense and accumulated depreciation for the assets recorded to the hydrants account—as determined for the Shannon Road and East Road water main projects—was filed as \$130 and \$65, respectively. Audit noted that the filed depreciation rate for Hydrants, reported as 2.0% on Schedule 3a, does not agree with the PUC Small Water Booklet depreciation rate of 1.9%. Audit noted that the 2.0% asset depreciation rate that was applied to the hydrants, was also used in the most recent rate increase case, docket DW 20-117. Audit recalculated and verified the depreciation expense and accumulated depreciation, based on the 2.0% filed depreciation rate applied for the first year using the ½ year convention. Additionally, the depreciation expense and accumulated depreciation was recalculated, based on the PUC Water Booklet’s rate of 1.9% applied for the first year using the ½ year convention. Audit deemed the calculated total variance of \$9.75—for the depreciation expense and accumulated depreciation—as determined between the PUC Water Booklet’s depreciation rate of 1.9% and the filed depreciation rate of 2.0%, as immaterial.

The total \$19,500 in costs filed on the Hydrants account was reported to be CIAC, per Attachment C, Schedule 3c. Audit reviewed the Fixed Asset Summary Reports (CIAC) for the period ended 12/31/2021, grouped by the general ledger asset account number, and noted a \$17,453 variance between the \$19,500 CIAC filed for the account and the \$36,953 amount on the report. Refer to the *East Road Water Main \$181,575 and CIAC \$(181,575)* and *Shannon Road Water Main \$690,542 and CIAC \$(690,542)* sections of the report for details regarding the CIAC verification by project total, as well as the journal entries recorded in 2022. Refer to *AUDIT ISSUE #1* within the *Continuing Property Records (CPR)* section of the report for further details regarding the reallocation of costs within the general ledger plant accounts.

Depreciation

Audit verified the rates included within the filing, reported on Attachment C of the Step II increase pages, and adjusted the ½ year reflection based on the actual additions booked to the general ledger. Refer to the individual accounts with the *Plant Accounts* section of the report for details regarding the calculation and verification of the depreciation expense.

Retirements

For the Step 2 calculation, there were 2 pump houses retired that were located at the Jesse Page Estates and Woodland Pond locations. Attachment C, Schedule 1 of the filing reported \$90,884 as the net book value for these disposals. Audit reviewed the general ledger for accounts 108, Accumulated Depreciation, as well as account 311, Pumping Equipment; however, the retirements were not recorded. The Company explained that the \$90,884 “*was actually the net book value as of 12/31/19*”. Audit reviewed the Net Book Value Reports for 2019 and 2021 and verified the net book value for the retired pump houses was \$90,884 and \$81,691, respectively. The Company stated that, “*When we were preparing the rate case a few years ago, we calculated the retirement of these assets using the latest year end numbers available, which was 12/31/19[...and] this disposal number was never updated during the rate case and step adjustments.*” The Company explained that they erroneously continued to carryover the 2019 net book value of \$90,884 and confirmed that they will record the retirement of the assets on the 2023 general ledger. **AUDIT ISSUE #3**

Conclusion

Audit conducted a review of the \$2,856,257 in final project costs. Based on the review, Audit believes that the Company has shown that these projects were used and useful, as of 12/31/2021. Support for the project costs was provided in the form of the general ledger, journal entries, fixed asset summary reports, CPRs, work order detail reports, invoices, and Excel spreadsheets—as well as agreements, contracts, bills of sale and a Final Completion Form.

Audit Issue #1 General Ledger

Background

The Fixed Asset Summary Reports are generated from the general ledger. Additionally, the Sage Fixed Asset System provides CPR information, including the following: the asset depreciation years and rate; the acquisition date; the system name, town, and general ledger account number for the plant; the depreciation expense and accumulated depreciation; the name of the vendor and serial numbers, as applicable; the contribution in aid of construction detail, as applicable; the replacement value and warranty date, as applicable; the asset total for book and tax purposes; as well as other information among other items.

Issue

The Company explained that as the original costs were allocated on the books in 2021, they realized that some of the costs were incorrectly allocated. When the Step II agreement was finalized, the Company had reallocated the costs; whereby, the filing corrected the aforementioned incorrect allocation to the general ledger. The Company stated that they are waiting for approval of the Step II before adjusting the general ledger to the filing. Consequently, the Company confirmed that the Fixed Asset Summaries (Internal and CIAC) and CPRs will not tie to the costs filed, as reported by plant account.

Recommendation

The Company needs to adjust the general ledger to accurately reflect the filed schedules. Although Audit recognizes that the reallocation of the costs on the general ledger plant accounts does not impact the total costs for the additions in the calculation of the Step II adjustment, going forward, any adjustments to the general ledger must be recorded as they are recognized, whereby, the Company ensures that submitted schedules to the filing accurately reflect the general ledger.

Company Response

Agreed.

Conclusion

Audit and the Company are in agreement. A copy of the actual general ledger reflecting the adjusting journal entries is requested as soon as they are booked.

Audit Issue #2
NH Drinking Water and Groundwater Trust Fund (NH DWGTF)

Background

The CIAC for the H2 projects was received as a grant by NH DES as part of the Drinking Water and Groundwater Trust (DWGT). Audit reviewed the disbursement log from NH DES, as well as the Company's Final Request for Disbursement document, dated 11/30/2021. The total grant disbursed was for \$3,407,568. Of the \$3,407,568 received as CIAC, \$1,302,918 was for the H1 project in Step I and \$2,075,024 was for the H2 project in Step II—resulting in a total of \$3,377,942 for the two projects. Audit confirmed the 12/31/2021 journal entry of \$2,075,023 for the grant amount that was allocated to the H2 project as CIAC. The journal entry was confirmed to account 271, Contribution in Aid of Construction.

Issue

The Company acknowledged that the total \$3,377,942 for the 2 projects is \$29,626 less than the total grant disbursement amount of \$3,407,568.

Recommendation

The Company should provide an explanation regarding the additional funds disbursed through the DWGTF for the Step II funded projects.

Company Response

The \$29,626 were additional costs the Company incurred relating to the grant. They were inadvertently omitted from the Step 1 and Step 2 calculations.

Conclusion

Audit acknowledged the Company's explanation and requests that any resulting revisions to the Step calculations be submitted to the filing.

Audit Issue #3 Retirements

Background

For the Step II calculation, there were 2 pump houses retired in 2021 that were located at the Jesse Page Estates and Woodland Pond locations. Attachment C, Schedule 1 of the filing reported \$90,884 as the net book value for these disposals. Audit reviewed the Net Book Value Reports for 2019 and 2021 and verified the net book value for the retired pump houses was \$90,884 and \$81,691, respectively.

Issue

Audit noted that the \$90,884 in retirements, per Schedule 1 of the filing, represented the 2019 net book value for the 2 pump houses retired in 2021. Additionally, the 2021 retirements were not recorded to the general ledger. The Company stated that, *“When we were preparing the rate case a few years ago, we calculated the retirement of these assets using the latest year end numbers available, which was 12/31/19[...and] this disposal number was never updated during the rate case and step adjustments.”* The Company explained that they erroneously continued to carryover the 2019 net book value of \$90,884 and confirmed that they will record the retirement of the assets on the 2023 general ledger.

Recommendation

Supporting journal entries, recording the 2021 retirement of assets to the general ledger, are requested as soon as they are booked. Additionally, any resulting revisions to the 2021 retirements—as reported in the calculation of the Step II adjustment—must be submitted to the filing.

Company Response

Jesse Page:

Dr.	108	A\D	182,093.61	
Cr.	304	Structures		73,177.75
Cr.	307	Wells		27,054.00
Cr.	311	Pumping Equ.		45,415.86
Cr.	320	Treatment Equ.		26,816.00
Cr.	330	Storage Tank		9,630.00

Woodland Pond:

Dr.	108	A\D	51,287.10	
Cr.	304	Structures		3,477.00
Cr.	307	Wells		13,858.00
Cr.	311	Pumping Equ.		17,473.10
Cr.	330	Storage Tank		16,479.00

The Company will revise its filing accordingly.

Conclusion

Audit acknowledged the Company's response. A copy of the actual general ledger for accounts 108, Accumulated Depreciation and the applicable plant accounts—reflecting the journal entries for the 2021 retirement of assets—is requested as soon as they are booked.