

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: February 10, 2010

AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Robyn Descoteau, Examiner
Karen Moran, Examiner
Jim Schuler, Examiner

SUBJECT: Concord Steam Corporation
DG 09-139
Final Audit Report

TO: Mark Naylor, Director
Steve Frink, Assistant Director
Bob Wyatt, Utility Analyst

Introduction

The PUC Audit Staff (Audit) has completed an audit of the books and records of Concord Steam (CSC, Company) for the test year 2008. CSC is a steam utility which provides steam to commercial, industrial, and public authority customers in the downtown Concord area. The Company leases the premises from which it operates from the State of New Hampshire Department of Health and Human Services.

The Audit Staff appreciates the assistance provided to us by Peter Bloomfield, Pansy Bloomfield, Bonnie Webber, and Mark Saltsman.

External Audit

Nathan Wechsler & Company, P.A. reviewed the books and records of Concord Steam, prepared the independent accountant's report, the PUC annual report, and the tax returns for the Company. The 2008 year end financial review concluded that the accountant "was not aware of any material modifications" that should be or have been made to the represented information.

Affiliate Agreements and Contracts

BS & Chips and Concord Steam (DG06-114) entered into a triple net lease of a wood yard at \$168,000 per year through 2016. Commission Order #24,740 authorized the recovery of \$141,792 from customers through the cost of energy mechanism. The remaining \$26,208 relates to that portion of the loan taken to purchase the property which

corresponds with a house on abutting property on Dover Road. The properties had to be purchased together, but the house is not used for wood yard purposes. Therefore, the Order instructed Concord Steam to book the expense below the line. Audit verified the below the line expense to account 9-9555.

The Concord Steam and Bloomfield Associates management contract was originally drafted on December 15, 1990, updated on December 31, 1999, then redrafted and adopted on June 28, 2005. The contract outlines the management, consulting, and engineering services that Bloomfield will provide to Concord Steam. The contract term is one year, with automatic renewal. The fee in 2005 was set annually at \$72,000 with an increase annually at the rate of the "Consumer Price Index, all Urban Consumers, Boston MA, All Items".

General ledger account 6-6560, Management Fee, reflects a total for the test year of \$81,224. Audit noted that the monthly amount increased from \$6,652 (posted January through June) to \$6,885 (July through December). The 3.5% increase was traced to the December annual CPI as outlined above. However, the contract states that the increase will take effect on the anniversary each year, with the increase using the CPI for the preceding twelve months. According to the Bureau of Labor Statistics, the CPI for July 2008 was 6.3%. Had the July increase been used, the monthly total would have been \$7,071.

The filing reflects a total payment to Bloomfield Associates of \$82,761. This figure represents six months in 2009 at \$6,885 and six months at \$6,909. The increase of 0.34% could not be verified to either the July or December CPI. The July 2009 CPI reflected negative CPI of -3.4% and the total for the calendar year was not available at the time the audit report was written. Please refer to the Accounts Payable section of this report for further information.

Audit requested the contract, or other document, that supports the activity noted within the PUC annual report table 22, Receivables from Affiliates. The affiliate, P&M Realty of Concord, LLC, owns the property on which a new plant will be constructed. The Company indicated that "*there is no contract between P&M Realty and Concord Steam. The activity is essentially cash/checking account activity in support of the new project*". Net activity in the general ledger account 1-1225, Loan to New Project, (on table 22, Receivable from Affiliate) showed activity of \$470,327 during the year. Another longer term loan, listed in account 2-3511, Loan from P&M Realty, reflected a net balance at year end of \$70,248. Credits during the year amounted to \$700,000 with offsetting debits of \$629,752. Refer to the Debt section of this report for further information.

Internal Controls

Accounts Receivable

Total accounts receivable at year end were comprised of the following:

Accounts Receivable 1-1251	\$1,004,990
A/R-Employees 1-1252	-0-
A/R Employee Purchase 1-1253	988
Employee Loan 1-1254	668
Officer Receivable 1-1255	(4,876)
Allowance for Doubtful 1-1259	<u>(35,161)</u>
Total Receivables	\$966,609

The aged receivables listing for year end relates to the primary receivable account 1-1251 which shows \$1,004,990 on the general ledger. However, the filing and the adjusted trial balance show \$1,002,855, a difference of \$2,135. The Company explained that the difference is due to an adjustment from customer budgets account applied to receivables to clear customer receivables amounts. Prior year reconciliations had not been made.

Please refer to the Payroll section of this report for explanation of the Officer Receivable balance.

The aging shows that 86.4% of the receivables are current, 7.9% past due over 30 days, less than 1.6% past due over 60 days and 4.1% over 90 days old. The 90 days past due figure is \$40,867. Based on this, the Allowance for Doubtful Accounts above appears to be reasonable.

Audit reviewed accounts which were past due ninety days or more. Specifically, BHS Services, Inc had paid in full as of the time of the audit, as had the Commercial Energy and Commercial Steam Sales, as well as Public Authority Energy. The Company reported that historically there had been some difficulty with reconciliation of accounts receivable between the billing software and the accounting software that had not been resolved by year-end 2008. For this reason, few if any bad debts were written off in 2008. Further, the Company indicated that it *"continued to carry a few uncollectible accounts that were under legal collection proceedings. The Company anticipates that adjusting entries will be made in 2009 and bad debts written off."*

The Company wrote off receivables of \$722 on March 31, 2008 debiting account 6-6175, Uncollectible Steam Sales and crediting account 1-1251, Accounts Receivable. The expense agrees with the filing amount of \$722.

Receivables from Affiliate Companies

The Company's 2008 PUC annual report showed a beginning balance of \$51,274 due from P&M Realty of Concord, LLC, an affiliated company. Table 22 of the Annual Report shows credits for the year totaling \$51,274 leaving a zero balance at year end. This balance agrees with the filing. Refer to the Debt section of this report regarding Payables to Affiliates.

Accounts Payable

The Accounts Payable filing balance account 2-2000 shows a 2008 year end balance of \$530,255. The payable listing provided to Audit shows that 61% of the payable figure is current, with 12.5% over 30 days old, 1.5% past due more than 60 days, and 24.6% more than 90 days past due.

The two payables which comprise the past due 90+ days are owed to Bloomfield Associates and the City of Concord Tax Collector. Total owed to Bloomfield Associates is \$101,707, with \$83,707 of that more than 90 days past due. The City of Concord is owed \$20,162. Please refer to the Tax section of this report.

Cash Reconciliation

Audit reviewed the year end bank statement reconciliation. The general ledger account 1-1010 shows a year-end balance of (\$249,780) which agreed with the reconciliation of checks outstanding. Monthly bank reconciliations are done for all cash accounts per the Company.

Plant in Service

Total Plant in Service at year end, as reported in Table 11 of the PUC annual report, was \$10,568,683 and included \$67,203 in Unfinished Construction. These figures agree with the Fixed Capital – Steam Plant reported on Schedule 2 of the filing. During the test year, the Company added \$105,950 to the overall plant figure. Retirements were reported to be \$80,000.

The Summary of Fixed Assets Report was used by the Company as the Continuing Property Records of the utility. Each asset category was tied to the respective general ledger account. The entire summary was then verified to the PUC annual report.

Account 1-2506, Construction Contribution to Others, reflects a balance of \$31,000. The PUC annual report shows this figure on the plant listing, as Other Production Equipment. This amount represents a 6" gas main purchased from EnergyNorth for use by Concord Steam. It is being depreciated over 75 years (the

estimated useful life of underground mains), with depreciation of \$520 per year shown in account 1-2565, Depreciation.

Additions during the Test Year

Total plant added during the test year amounted to \$105,950. Audit reviewed \$77,323, approximately 73%, of the additions to source documents. The following table describes the items reviewed by Audit:

<u>Account Description</u>	<u>Asset Description</u>	<u>Amount</u>
Power Plant Equip	Paving at Yard	7,500
Power Plant Equip	5 CF Drum Resin Beads	6,523
Power Plant Equip	Basler Multifunction Relay	7,985
Wood Yard Equip	Hale Trailer Brake & Wheel	8,027
Underground Mains	Pleasant St Manhole	18,394*
Underground Mains	Ralph Pill Manhole	3,398
Services-Equip from Main	8 Court St (Barnes)	2,378
Transportation Equip	Ford F-250	<u>23,118</u>
		77,323

* Pleasant St Manhole project contains duplicate costs of \$3,398 equal to the Ralph Pill Manhole project. **Audit Issue #1**

Retirements

The PUC annual report reported retirements of \$80,000 during the test year. The entire amount related to the retirement of a loader which rolled over and was deemed “totaled” by the Insurance Company. Per Mark Saltsman, CSC was “...paid for the book value of a used machine. The asset was retired and CSC took payment from the Insurance Company as a cash asset. The loader was taken by the Insurance Company.”

Audit traced the following entries to the Company’s general ledger:

1-2565	Depreciation	\$80,000	
1-2540	Transportation Equip		\$80,000

Concord Steam also received an insurance settlement associated with the loan which had existed on loader. For additional detail, please refer to the Revenue (Miscellaneous Income) section of this report.

Contributions in Aid of Construction (CIAC) and Amortization

The PUC Annual Report properly lists Contributions in Aid of Construction as a liability and reflects a 2008 year end balance of \$171,975. The general ledger accurately reflects this balance in account 2-3530, Contribution in Aid. Audit was provided with a

detailed schedule of the mains and services which comprise the \$171,975. Audit tied these assets to the balance sheet.

Accumulated Amortization related to Contribution in Aid of Construction was found in account 1-2570. The year end debit balance at 12/31/08 was \$67,025.

The Company booked Amortization Expense related to CIAC and Debt to Account 6-6135. The year end credit balance at 12/31/08 was (\$2,316). Amortization of CIAC, in the amount of (\$3,018), was reflected on the PUC annual report income statement on line 1504. This was verified to the general ledger account; amortization expense, 6-6135. Amortization of debt discount, in the amount of \$702, was reflected on the PUC annual report income statement on line 1531. This was verified to the general ledger account; amortization expense, 6-6135.

PUC annual report Table 42-s, Amortization Expense, account 1504, included the amortization of CIAC exclusively and showed a credit expense total for the year of (\$3,018). For further detail, please refer to the Expense section of this report.

Accumulated Depreciation and Depreciation Expense

Total Accumulated Depreciation in account 1-2565 reflected a year end credit balance of (\$5,274,897). This agreed with the amount reported within the PUC Annual Report. As of January 13, 2009, the amount reported on Schedule 2 of the filing for the 12/31/08 Depreciation Reserve balance was the year end 12/31/07 balance, (\$5,110,884); and the amount reported as the 12/31/07 balance was the year end balance for 12/31/08, (\$5,274,897).

Depreciation expense reported for the year within both the PUC annual report and the Company general ledger was \$244,053. Detail per general ledger account 6-6130 reflected four equal entries of \$20,153, seven equal entries of \$20,173, and a year end adjusting entry of \$22,233. The Company's accountant reviews the plant in service each year and determines the monthly depreciation to be booked. At each year end, any activity throughout the year, which had an impact on depreciation, is booked as an adjusting journal entry. The adjusting entry for 2008 was the calculated difference between the total depreciation expense noted on the Fixed Asset Summary and the monthly general ledger entries.

Because of the Audit Issue identified in the Plant in Service section of this report, the Underground Mains account was overstated by \$3,398. *The depreciation expense (1.33%) booked for this asset was \$45, thus depreciation expense was overstated and the accumulated depreciation was understated.* **Audit Issue #1**

Debt

Short term Debt

Concord Steam has a line of credit through the TD Banknorth, not to exceed \$1,200,000, which was approved by Commission Order No. 24,867 dated June 27, 2008. Audit reviewed the activity in account 2-3065 and the activity did not exceed the authorized credit limit noted in Order 24,867. The general ledger balance at year end 2008 was \$607,033 while the filing balance is \$607,000.

Interest expense related to the line of credit amounted to \$20,189 and posted to account 6-6636, Credit Line Interest with no exceptions noted.

Long term Debt

Term Loan	826,231 - in relation to 11/08/06 \$995,580 loan
Term Loan	4,957 - in relation to 03/06/07 \$13,537 loader loan
Term Loan	<u>19,813</u> - in relation to 04/09/08 \$23,063 truck loan
	\$851,001

Throughout the test year there were three long term debt issues reported. At year end the total amount outstanding of \$851,001 was verified to the general ledger accounts 2-3506 – Long-Term Loan, 2-3507 – Truck Loan and 2-3508, Skid Steer. This amount also agrees with the filing. However, the term loan interest rate reported on the 2008 PUC annual report is shown as 7.23% while the filing shows a rate of 5.23%. The Company indicated that the 2008 annual report should show 5.23% which is the rate filed.

A truck loan which had been granted by the Commission on March 14, 2008, Order No.24,832 stipulated a \$24,000 interest free loan to be repaid in 60 monthly installments. However the Company reported that the dealer made an error and was unable to obtain the 0% interest rate. The Company also stated that to rectify the situation, the dealer lowered the cost of the vehicle by the amount the interest would generate. The purchase price of \$23,063 at 2.9% interest for 60 months calculates to a total cost of \$24,803 which is \$803 more than the Commission Order stipulates. Also stipulated in the Order was that the Company, within 30 days of taking delivery, was to file the purchase and loan agreement. This has not been done. Audit requested the agreement and it shows the Company also paid a down payment of \$1,741. Therefore, the truck purchase was \$2,544 more than agreed upon in the Commission Order.

Audit Issue #2

Adjusting entry #6 was to reclassify loan payments inadvertently recorded in the fixed asset account to the Truck Loan Interest account #6-6638. However, an account was never established for the loader. This reclassification has no financial effect on the

total loan interest; however the Company should set up a separate account for the loader loan. **Audit Issue #3**

Long Term Debt Interest of \$45,026 shown on the filing agrees with the test year amount reported on Table 26 of the 2008 annual report:

Term Loan	\$43,963 - in relation to 11/08/06 \$995,580 loan
Term Loan	648 - in relation to 03/06/07 \$13,537 loader loan
Term Loan	<u>415</u> - in relation to 04/09/08 \$23,063 truck loan
	\$45,026

Payables to Affiliate Companies

P&M Realty, an affiliate of Concord Steam, loaned Concord Steam \$700,000 in November of 2008. In December, the Company repaid P&M Realty \$629,752. Account 2-3511 showed a year end balance of (\$70,248) which agrees with the rate request filing. No interest was paid on this loan. Audit submitted a request for an explanation as to what the loan financed and if approval was sought from the Commission. The Company explained that there were originally two accounts established to track activity between P & M Realty and Concord Steam. The two accounts were netted out to be tracked in a single account, Loan from P & M #2-3511. The amounts shown in the history of the account were short term movements of cash between related companies to facilitate checking account activity for the new plant construction project. For this reason, Commission approval was not sought.

Audit noted that Commission Order No. 24,867, issued on June 27, 2008, approved the Company's petition for an increase in its short-term debt limit from \$700,000 to \$1,200,000.

Accrued Interest

The Company does not accrue interest on debt, rather, it is expensed as it is paid. **Audit Issue #4**

Customer Deposits/Customer Budgets

The Company provided a schedule of customer deposits at year end, in response to the initial audit letter submitted. The amount was verified to general ledger account 2-4000, Customer Deposits/Overpay, which reflected immaterial overpayments during the year and were credited back to the customer account. Two deposits held by the Company at the end of the test year totaled \$2,999. Account 2-4010 Customer Budgets totals \$11,045. The two account totals comprise the filing amount of \$14,044.

Cost of Obtaining Financing

Costs of obtaining financing, which are being amortized, were correctly identified in Table 23 of the PUC annual report. The Company amortized a total of \$702 which was verified as a debit to Amortization Expense account 6-6135 and a credit to account 1-2600, Cost of Obtaining Financing. This amount agrees with the filing.

Taxes

The Company provided Audit with copies of the Federal income tax return for 2008, as well as the NH Business Enterprise Tax return for 2008. Both forms were reviewed and tied as applicable to general ledger accounts.

Deferred Income Taxes

Deferred income taxes for the year were calculated by the external accountant to be (\$203,863) and posted to account 6-7050. A posting to the Deferred Income Tax Credit, account 2-3060, of (\$9,754) was verified to the general ledger as well as the PUC annual report. Both entries were offset to the Deferred Tax Debit account 1-2055. At year end, that asset account reflected a balance of \$440,446. The year end balance in Deferred Income Taxes, account 2-3060 was (\$1,135,035).

State Income Taxes

State income taxes for the year were calculated by the external accountant to be \$8,178 and posted to account 6-7000A. A posting to 1120 NH Tax (NH Business Profits), account 6-6165, of \$362 was verified to the general ledger. Both entries were offset to Accrued Taxes – 1120 NH, account 2-3030. At year end, that asset account reflected a balance of (\$6,138).

Property Taxes

Property taxes for the wood yard located in Pembroke were posted to account 6-9600, Property Tax Yard, in the amount of \$25,113. This represents the wood yard on Ricker Road, not the property on Dover Road which is unrelated to the utility. Costs related to the wood yard were removed from the filing in the December 20, 2009 revision to the rate case.

The State utility property tax reported for the test year was \$21,494 and posted to expense account 6-6141. This tied to Schedule 1A.

City property taxes reported for the test year on Schedule 1A, December 20, 2009 revision, total \$105,901. City property taxes are posted to account 6-6140. At year end, the general ledger reported a balance of \$57,692.

There were two expense entries made in account 6-6140 during 2008: in September, a (\$7,665) cash rebate was received from the city of Concord and in December the Company's accountant made an adjusting entry in the amount of \$65,358 "to adjust prepaid property taxes to proper balance at 12/31/08."

The Company provided Audit with a property tax schedule detailing the reported expense of \$105,901. Audit traced the schedule to the prepaid property tax account in general ledger, account 1-2050. Audit contacted the city of Concord Collection Office for copies of the Company's property billing statements. Per PUC Audit analysis, the tax billings related to the test year totaled \$86,404.

Audit traced three property tax payments totaling \$55,005 to the city's records. The three payments included *interest payments totaling \$8,493* and of the \$55,005 paid, *\$28,049 was applied to outstanding 2006 tax billings.* **Audit Issue #5**

At the end of the Test Year, all three City of Concord Property Tax Statements were in arrears and had liens attached to them; see further discussion below.

Through analysis of the property billing statements sent by the City of Concord Collection Office, Audit has determined that the CSC property tax expense for 2008 should have been \$86,404. Additionally, Prepaid Property Tax should have been \$24,104, which represents three months worth of 2009 property tax expense; January, February and March. **Audit Issue #5**

As of the November 26, 2007 billing, the city of Concord reported the following valuations on each parcel:

Right of Way assessment:	\$6,800
Pleasant Street land and buildings:	\$1,171,900
Distribution System:	\$3,733,800

During 2008, under RSA 76:16, CSC appealed the property assessment for all three taxable properties within the city of Concord and was instructed by their attorney to pay 41% of the tax bills until the appeal was resolved. According the Company's response to Staff Data Request 1-5 (f) "...*(The appeal) was based on the difference in valuations of the State of NH DRA and the City of Concord. As the situation was investigated, the State DRA determined that their number was incorrect and that the City valuation was correct. As a result, there was no change in the City tax valuation and the State valuation increased.*" As a result of the pending appeal and partial payment of the tax assessments, a tax lien had been placed on each of the three properties. Audit reviewed a letter addressed to the State of NH Department of Revenue Administration, dated April 27, 2009, signed by Peter Bloomfield, stating, "*Concord Steam has come to an agreement in valuation with the DRA. The new revised value is \$3,254,394. Concord Steam Corp hereby withdraws its request for an appeal.*"

As of the May 27, 2008 billing, the City of Concord reported the following valuations on each parcel:

Right of Way assessment:	\$6,800
Pleasant Street land and buildings:	\$1,070,100
Distribution System:	\$3,733,800

The following is an analysis of Property Tax Expense:

	Schedule 1 <u>Rev 12/20/09</u>	Audit Analysis <u>02/05/10</u>
State Utility	\$21,494	\$21,494
City	105,901	86,404
Pembroke	<u>0</u>	<u>0</u>
Test Year Balance	\$127,395	\$107,898
Proforma Adjustment (Tech 1-6)	<u>(15,062)</u>	<u>(15,062)</u>
Proformed Balance	<u>\$112,333</u>	<u>\$92,836</u>

Revenue

Total Operating Revenue - Steam per the PUC annual report amounted to \$4,786,103. Audit verified this figure to the detailed general ledger accounts, outlined below. The Company also received \$7 in interest income for the year, which was noted on the annual report and traced to the general ledger. The total revenue according to the filing, Schedule 1, was \$4,785,442.

<u>Account Description</u>	<u>G/L Amount</u>	<u>Accountant</u>	<u>PUC Report</u>	<u>Schedule 1</u>
Domestic Regular Service			\$1,957	
4-5020 Public Authority Base	\$1,297,759	1,297,759		
4-5029 Public Authority Energy	<u>1,402,978</u>	<u>1,402,978</u>		
Subtotal	\$2,700,737	\$2,700,737	\$2,700,737	
4-5010 Commercial Base	835,667	836,256		
4-5028 Commercial Energy	882,479	880,775		
4-5025 Commercial Disc	<u>(83,353)</u>	<u>(83,136)</u>		
Subtotal	\$1,634,793	\$1,633,896	<u>\$1,633,045</u>	\$4,335,077
4-5000 Residential Energy	993	993		
4-5048 Sale of Electricity	<u>149,459</u>	<u>149,834</u>		
Subtotal	\$150,452	\$150,827	\$150,827	\$150,827

4-5045 Meter Charges	31,900	31,900		\$31,900
4-5005 Residential Base	1,487	1,487		
4-5040 Customer Penalties	12,356	12,402		
4-5049 Demand Response Inc	5,123	5,123		
4-5061 Customer Service Parts	28,580	30,300		
4-5062 Customer Service Rev	26,956	22,201		
4-5102 Rental Income Stack	14,175	14,175		
4-5115 Miscellaneous Income	152,211	152,211		
4-5120 Service Connects/Cust	<u>31,225</u>	<u>31,225</u>		
Subtotal	\$304,013	\$301,024	\$299,537	\$267,637
TOTAL	<u>\$4,789,995</u>	<u>\$4,786,484</u>	<u>\$4,786,103</u>	<u>\$4,785,442</u>

Concord Steam customers are billed monthly, in arrears, at month end. As a result there is no unbilled revenue at year end.

Review of the different general ledger accounts determined that for each there were twelve entries, where appropriate, representing the monthly invoicing to customers.

Audit reviewed 100% of the Trial Invoice Listing for the month of December and noted that the invoice, customer name, amount of steam used, the usage charge, meter charge and activity on the account were detailed. The usage charges, fuel charges and meter charges were reviewed for compliance with the tariff. No exceptions were noted.

Five accounts on the Trial Invoice Listing did not appear to reflect the correct usage fee. However, Audit was provided with the actual invoice copies which reflect more than one meter. For those accounts, the total steam usage on the listing exceeded the 500 mlbs first tier. The individual meters were properly calculated. As a follow-up to its recommendation in docket DG 07-076, Audit recommends that the Company review the grouping and calculations for the five accounts to ensure that going forward each is properly calculated. The accounts are: #231, #307, #409, #410, #420.

In September 2006, CSC petitioned the Commission for approval of a special contract for the Concord Family YMCA, based on the non-profit's importance to off-season load, among other things. The petition was granted through Order No. 24,776 issued on July 12, 2007. The contract runs for ten years, through February 2017. Billings to the YMCA during the test year were tied to the special contract. No exceptions were noted.

Sale of Electricity – Account 4-5030 and Account 4-5048

The Company reported sales of electricity totaling \$150,827. Two general ledger accounts were consolidated to report the total sale of electricity amount: Residential Energy Income, account 4-5030, \$993 and Sale of Electricity, account 4-5048, \$149,834.

Residential Energy Income, account 4-5030, had monthly posting from January through May and in the months of November and December. The year end balance was \$993. No exceptions were noted.

Electricity generated in excess of that used by CSC was sold to Unitil. The CSC reported electricity sales of \$149,834. Audit noted that the \$149,834 did not include a (\$375) adjustment recorded in the ledger during June. The December 2008 sale for \$28,260 was not recorded in the Company's ledger. Audit's review of test year statements revealed total Electricity Sales should have been recorded as \$177,719.

Audit Issue #6

Rental Income-Stack –Account 4-5102

Concord Steam leases space on one of the wood silos to Sprint/Independent Communications. Authorization from the State, which allows Concord Steam to sublease a portion of the premises, subject to the 30 year lease, was reviewed during the audit in DG 04-156. Sprint signed the contract with CSC and the State in 1996, with an annual rental amount of \$18,000, to increase by the Consumer Price Index. One half of the annual rent is paid to Concord Steam and one half to the State, which owns the property.

The total booked to the rental income account was \$14,175. Included were eleven entries of \$934 each; three December entries of \$815, \$140, and \$968; and a February entry in the amount of \$1,975. The February entry represented utility expenses for which Sprint was responsible to CSC (per Exhibit D of the agreement with CSC). The specific timeframe over which the \$1,975 utility expense had been incurred was January through December 2007.

Miscellaneous Income –Account 4-5115

CSC received and recorded a cash settlement from their insurance company, in the amount of \$114,864, associated with the loan which had existed on a loader that was totaled in an accident at the Company's wood yard. See Non-Recurring Revenue section of this report. For additional detail regarding the retirement of the loader, please refer to the Plant in Service (Retirements) section of this report.

Greenhouse Gas credit payments totaling \$17,970 were received during 2008. See Non-Recurring Revenue section of this report.

The Company received a cash settlement from an insurance broker in the amount of \$17,000. This is a one time payment. See Non-Recurring Revenue section of this report.

The remaining miscellaneous income consisted of scrap metal sales of \$2,090 and miscellaneous credits of \$287.

Operations and Maintenance

Comparison of Filing to Supporting Documentation

The profit and loss statement filed by the Company reflects total income of \$4,788,251. The revised filing, schedule 1, received on December 20, 2009 shows total income of \$4,785,442. The annual report income statement reflects total income of \$4,786,103. The data used by Nathan Wechsler to compile the annual report reflects total income of \$4,786,484. Several individual revenue accounts varied, and while the overall income error is immaterial, the inconsistency among the supporting detail was troublesome.

Audit requested, and was provided, with the external accountant's compilation worksheet used for the entire PUC annual report. As above, Audit tried to verify the worksheet figures to the general ledger detail and found that in addition to the eight revenue accounts discussed above, seven balance sheet accounts and 24 expense accounts did not agree with the general ledger. When asked, Audit was informed by the Company that the books are being scrutinized more closely and adjustments are being made on an ongoing basis. The detailed general ledger provided to Audit for use during this audit review, was not the same general ledger provided to the external accountant. Thus Audit was told that the figures on the compiled worksheet provided by the external accountant are the correct figures on which to rely.

Utility Lease Account 5-6000 \$83,763

Concord Steam entered into an agreement with the State of New Hampshire to lease the premises of 105 Pleasant Street in 1980. The term of the lease is 30 years, and expires in August 2010. Because the Company will not own the building at the end of the lease term, it has booked this long term lease as an annual operating expense rather than a capital lease. The Company is currently in a month-to-month lease agreement with the state until such time as a new facility is constructed. See docket DG 08-107.

Diesel Fuel Account 5-6006 \$2,498

The only entry made during the year was verified to an invoice from Johnny Prescott Oil for 587 gallons of diesel. The purchase was made in August when the price per gallon was at a record \$4.249.

Ash Disposal Account 5-6020 \$27,253

Audit selected one debit entry made in April in the amount of \$4,889. An invoice from Resource Management Inc. for the April ash removal, trucking, lab fees, etc., was provided to support the entry.

Water/Sewer Account 5-6025 \$170,586

Concord Steam entered into an agreement with the city of Concord to pay the sewer discharge portion of their customers' steam usage, rather than the customer receiving an individual invoice for that portion of the sewer use from the city. The filing profit and loss statement, as well as the general ledger and external accountant's compilation each reflect the expense for the year to be \$170,586.

Audit reviewed the October 2007 through January 2009 invoices which had been provided in response to Staff Data Request 1-5. Based on the review of the invoices, the general ledger 5-6025 expense for the year should be reduced by \$127 due to the inclusion of late fees.

Late fees of \$191 on invoice due 12/15/2008 and \$206 on invoice due 1/15/2009 were posted to account 6-2300, Interest Paid in error. The late fees should have posted to account 9-9560. Audit noted that late fees for the months of January 2008 and April 2008 properly posted to account 9-9560.

The invoice including late fee for the meter read period 12/5/2008 – 1/5/2009, issued in the amount of \$27,095, was not noted in the expense account, nor was the late fee amount of \$393 noted on the general ledger. The Company posts activity on a cash basis rather than an accrual basis, as is required by the PUC Chart of Accounts. See **Audit Issue #4**

As a result, the general ledger should have reflected the following for the Water/Sewer Expense Account 5-6025 for the year:

Balance of GL 5-6025	\$170,586
Reduce by late fees posted to incorrect account	(127)
Increase by the final invoice not posted per accrual accounting	<u>27,095</u>
Adjusted Water/Sewer Expense 5-6025 should be	\$197,554

The late fees account 9-9560 should be increased by the \$127 noted above, as well as by the \$191 and \$206, with these two being offset to the Interest Paid account 6-2300. **Audit Issue #7**

Calibration Gases (CEM) Account 5-6026 \$1,593

Audit selected one of the two entries posted during the year for review. The invoice in the amount of \$1,246 which posted in June 2008 was from Airgas for carbon monoxide and nitric oxide and included a hazardous material surcharge and fuel surcharge. There were no exceptions.

Valves (Gaskets, Packing, etc.) Account 5-6053 \$1,905

Audit noted several immaterial entries within the detailed general ledger, but selected one item which posted on November 3, 2008 in the amount of \$850. The invoice to support the entry was from Martin Engineering for steam traps, gaskets, diaphragms, etc. There were no exceptions.

Electricity Purchased Account 5-6075 \$94,391

Audit reviewed the monthly invoices from Unitil for service locations at 105 Pleasant Street, 72 South Main Street, and 57 South Main Street. The facilities at each of the Main Street locations were related to steam pits. There were no exceptions noted.

Repair Parts/Mechanical Plant Account 5-6095 \$26,638

Audit reviewed two specific invoices, both of which posted in November 2008. One, in the amount of \$2,072 was paid to Laidig Systems for an Assy Bearing, housing, and auger reclamation. Another, in the amount of \$2,537, also paid to Laidig was for chains and coupling, pin hub, keys, screw set, shaft, auger, all of which were related to the #2 silo.

Valves Account 5-6109 \$19,495

Audit reviewed the activity within the account and selected one entry which posted in October in the amount of \$4,407. The invoice supporting the entry was paid to Martin Engineering for valves, diaphragms, spigots, and gaskets. There were no exceptions.

Contracts Maintenance & Repair/Plant Account 5-6110 \$12,269

Audit reviewed one invoice in the amount of \$2,833 from the North American Industrial Services company for vacuuming the roof and boiler room.

Contract Maintenance & Repair/Distribution Account 5-6115 \$1,345

There was one entry only within the account detail, and Audit was provided with a credit card statement as well as an invoice from the June Company for calibration of the Toby Building vortex steam flow valve.

C.E.M. System Account 5-6116 \$11,018

Audit reviewed the activity in this Continuing Emission Monitoring System account and reviewed one entry which posted in July. The invoice, in the amount of \$3,536, was paid to Phoenix Instruments for time and parts related to calibrating the

opacity filters and installing and testing the PC board transceiver. A lightning strike had damaged the opacity monitor on the stack.

Instrumentation/Electrical Account 5-6117 \$4,190

The total of this account was small, but one entry posted in August in the amount of \$2,999 was reviewed. An invoice from 3C Electrical was provided which detailed the time for a manager, engineer, and 2 technicians to investigate, troubleshoot and test the protective relays and main 15 kV breakers, as there was a problem with the breaker not opening during a power outage at the plant.

Customer Parts/Supplies Account 5-6120 \$45,889

Audit selected one invoice which posted in August, in the amount of \$11,967 for review. The support was an invoice from General Insulation Company for 252 feet of foamglas and stratafab foamglas for the "M&S line relocation". **Audit Issue #8**

Rental Fees/Turbines Account 5-7085 \$1,500

Two entries were noted within the detailed general ledger activity, in February and March. The entries represent the rent paid for use of a private pickup truck. Audit was told that the rental was to assist in transporting CSC Staff to Veasy, ME for turbine work related to the new project. Refer to the Non-recurring Expenses Related to the New Plant section of this report.

Yard Rental Account 5-8005 \$141,792 Cost of Energy

Concord Steam leases a wood yard on Ricker Road in Pembroke from BS& Chips, an affiliated company. Per Order 24,740, the Company was authorized to recover \$11,816 monthly through the Cost of Energy rates, which are reviewed annually. A separate parcel, abutting the wood yard, on Dover Road, costs the shareholders \$2,184 monthly or \$26,208 which is appropriately not included in this filing. Total rent per the revised filing Schedule 1, Operating Income Statement, is \$225,555. \$83,763 represents the rent paid to the State of NH for the current steam plant and was verified to the general ledger account 5-6000 without exception. \$141,792 was also verified without exception to the general ledger.

Loader Fuel Account 5-8006 \$27,283 Cost of Energy

The loader fuel expense account reflected an increase of over 520%, according to the profit and loss statement within the filing, from year end 2007 to year end 2008. While the average cost of diesel fuel had increase from \$2.98 per gallon during 2007 to \$4.02 during 2008, the percentage increase in the price per gallon is 36%. Another reason for the year to year increase appears to be the reduction by 19% in the Diesel account 5-6006 discussed above.

Amortization Expense Account 6-6135 \$2,316

The filed profit and loss statement reflects the year end unadjusted expense figure of \$1,284. Adjusting journal entry #4 credited the expense account \$581 and adjusting journal entry #21 credited \$3,018. The ending balance resulted \$2,316.

Adjusting journal entry #4:

1-2507 Amortization Reserve-CC	347	
1-2600 Cost of Obtaining Financing	234	
6-6135 Amortization Expense		581

The notation on the adjusting entry per Nathan Wechsler was to “adjust amortization of obtaining financing and amortization reserve to proper balance” For further detail, please refer to the Debt section of this report.

Adjusting journal entry #21:

1-2570 CIAC Received Accumulated Amortization	3,018	
6-6135 Amortization Expense		3,018

The notation on the adjusting entry per Nathan Wechsler was to “record amortization of CIAC for financial statement presentation” For further detail, please refer to the Plant in Service section of this report.

Audit noted that the PUC annual report reflects the \$3,018 credit and \$702 debit on two separate lines on the income statement. The result of \$2,316 agrees with the accountant’s post-close supporting detail.

Regulatory Commission Expense Accounts 6-6171, 6-6570, and 6-6610

The income statement in the PUC annual report reflects a total for the year of \$52,908. This amount was verified to three specific accounts per the external accountant’s compilation:

6-6171 State Fees	\$37,197
6-6570 PUC Tax	12,810
6-6610 Federal Fines	<u>2,900</u>
Total	\$52,908

The State Fees account represents expenses associated with inspection fees, air emission fees, and hazardous waste program fees. The invoice from the NH Air Resources Division of the Department of Environmental Services, in the amount of \$36,144, was reviewed without exception. Audit reviewed the PUC Assessment books for state fiscal years 2008 and 2009. The expenses relating to calendar year 2008 sum to

\$12,982. The reduction of expenses by \$172 was noted as an adjusting journal entry, based on the external accountant's workpapers.

The filing includes the \$2,900 Federal Fine. Response to Staff Technical Session data request 109 identified the three accounts above as comprising the Regulatory Commission Expense. **Audit Issue #9**

Association Dues/Fees/Memberships Account 6-6173 \$16,152

An entry in the amount of \$5,000 which posted in May was selected for review. Audit was told that the amount represented a membership fee to the Chicago Climate Exchange. The Exchange functions in a manner similar to the R.G.G.I. to which NH belongs. Audit asked if there was a revenue offset for the carbon savings attributable to the use of wood rather than oil and was told yes. CSC indicated that it had signed a five year membership contract (in 2005) to qualify their greenhouse gas credits for sale to the Exchange.

Allowance for Doubtful Accounts vs. Uncollectible Steam Sales account 6-6175

The Allowance for Doubtful Accounts, shown in account #1-1259, in the amount of \$35,161 has remained unchanged for several years. The actual amount booked to expense account 6-6175, the Uncollectible Steam Sales account was \$722 for the year.

Employee Recruiting Account 6-6515 \$9,558

One entry in the amount of \$8,050 was reviewed by Audit. The item was explained to be a cash Christmas bonus gift for all of the employees. Please refer to the discussion relating to account 6-6615, Miscellaneous General Expenses.

Travel, Meals, etc. Account 6-6523 \$2,864

Overall the expense for the year is not significant, although there were five debit entries noted as "Adjust Travel", each of which was offset with a credit to Travel Expenses, account 6-6525. When asked about the items, Audit was told that the entries were incorrectly booked (presumably to account 6-6525), although what the entries represent is not known.

Travel Expenses Account 6-6525 \$-0-

Audit reviewed the activity with this account and noted, as discussed above, credit entries which were offset to the Travel, Meals account 6-6523. There were a total of 36 debit entries, although none of the credits were identical to any. Total debits for the year \$14,335 and total credits for the year \$14,335.

Audit questioned six entries, each in the amount of \$500, and was told that they were “for the new project”. The total of these, \$3,000 was included in a journal entry reclassification at year end, in the amount of \$11,408, which zeroed the expense account out, but moved all of the money into a new account, 2-3511, Loan from P&M Realty. Please refer to the Debt section of this report.

Attorneys Expense Account 6-6545 \$10,459

The account detail reflected the following:

Beginning Balance	\$ -0-
Total Debits	14,995
Total Credits	<u>(4,535)</u>
Year End Balance	\$10,460

Audit reviewed 100% of the invoices from the McLane, Graf, Rauleson and Middleton law firm. Of the \$14,995 debited, the McLane invoices accounted for \$13,995.

There were two refunds posted during the test year. One refund, posted on 1/14/08 in the amount of \$1,886, was a refund of an expense incurred in 2007 and paid twice in error. The credit offset should have posted to retained earnings, as the expense and rebate crossed calendar years. **Audit Issue #4**

The McLane invoices reviewed were for the following legal services:

Legal services related to prior docket DG 07-076	\$ 2,935
Legal services related to the 2008 Cost of Energy	1,945
Legal services related to an increase in short term debt	1,297
Legal services related to the affiliate agrmnt new cogeneration facility	1,161
Legal services associated with the city and DRA valuation	2,765
Legal services for special contract with past due customer	1,242
Invoices for 2008 Cost of Energy paid by P&M Realty, not on CSC GL	<u>2,390</u>
Total McLane legal invoices for 2008	\$13, 735

Please refer to the Non-recurring Expenses summary in this report which includes the legal services associated with docket DG 07-076. Order 24,866, issued on June 27, 2008, authorized the Company to file, within 90 days, a summary of rate case expenses associated with that case. The Company did not provide an accounting of the costs, which would have included the \$2,935 noted above. As a result, these \$2,935 costs are non-recurring.

Audit noted four individual entries in the amount of \$250 each which were not McLane. One, paid to Orr & Reno, was for “annual maintenance”, and the others, paid to Golde, were for efforts to collect past due revenue from one customer.

Two McLane invoices dated September 2008, relating to the 2008 cost of energy, had been paid by P&M Realty in error. The two sum to \$2,390 but that amount was not recorded in the general ledger. The filing did not include this amount as a pro forma adjustment.

Accountants Expense Account 6-6550 \$26,568

Audit reviewed the Nathan Wechsler invoices for the year 2008. Each invoice was a summary only for "Tax and Accounting services" for the period ending at a specific month end during the test year. Only one invoice noted services as those pertaining to the "rate case". The invoice for the period ended January 2008 would have been for the prior rate case DG 07-076, in the amount of \$1,539. Refer to the Non-recurring Expense section of this report.

Engineering Consultants Expense Account 6-6555 \$9,574

Audit noted seven debit entries for the year amounting to \$12,974 while one credit entry of \$3,400 offset the total. The credit entry posted on January 5, and audit was told that it was a refund from a 2007 expense paid to Sheer McCrystal. Audit informed the company that the year over year crossing of expenses and refunds is incorrect accounting, reducing artificially the actual incurred expenses for the year 2008.

Audit selected a January entry in the amount of \$4,770 and was provided with an invoice from New England Air Testing. The invoice indicated that it was for services provided in November 2007, but the invoice date was January 3, 2008. **Audit Issue #4**

Audit selected an entry in May in the amount of \$3,750 and was provided with an invoice from Golde Planning and Design. The information on the invoice indicated that the services provided were for conceptual maps and GIS, relating to the new plant yet to be constructed. Please refer to the Non-recurring Expenses Relating to the New Plant section of this report.

Audit also selected an entry in December in the amount of \$2,140 and was provided with an invoice from Phoenix Instruments. The invoice indicated that the services related to RATA testing of a lightning arrester.

Management Fees Account 6-6560 \$81,224

Peter Bloomfield maintains a management contract with Concord Steam for engineering services. The contract requires monthly payments of \$6,652. Six regular entries of \$6,652 were noted, with an increase in July to \$6,885. Offsetting entries were noted in the Accounts Payable account. As of December 31, 2008, the total payable to Bloomfield Associates was \$41,310. Refer to the Affiliate Agreements section of this report as well as the Accounts Payable section.

Other Consultants Account 6-6565 \$16,911

Three of the eleven entries noted in the account were verified to invoices from Janvier Associates. The three amount to \$15,000 and relate to “obtaining financing for expansion of the new plant and renovation of the old steam lines as part of relocating the steam facility to a new site”. Please refer to the Non-recurring Expenses Relating to the New Plant section of this report.

Insurance Expense Account #6-6576 \$72,283

The detailed general ledger reflected:

5 monthly debits (January – May) for \$183 for New Plant Insurance	\$ 915
3 monthly debits (January – March) \$5,462 to Wm Gallaher Insurance	16,385
1 immaterial debit in April	24
1 debit in May to the Rowley Agency	13,951
6 debits (June – December) paid to AFCO	44,468
1 credit adjusting journal entry at year end	<u>(3,459)</u>
Year End Insurance Expense	\$72,283

Audit noted that January through May reflected regular debits of \$183, with a memo of “New Plant Insurance”. The total of the five postings is \$915. Please refer to the Non-recurring Expenses Relating to the New Plant section of this report.

Audit reviewed the insurance policy of Concord Steam which runs from May 20, 2008 through May 20, 2009. The annual premium of \$68,704 was financed through AFCO Premium Finance. Invoices were on file and paid monthly beginning in June. One entry, which posted in May in the amount of \$13,951 was verified to a check stub paid to the Rowley Agency. The Company could not locate documentation, but hypothesized that the amount was the initial down-payment required for the new policy year. The total of the “deposit” and the June – December entries, including an adjusting credit at year end was \$54,960 or 80% of the May – May insurance premium.

The specific coverage was detailed for Buildings and Equipment, Business Personal Property, Business Income, Accounts Receivable, Valuable Papers on Premises, EDP Equipment on Premises, EDP Media on Premises, Contingent Liability, and Pollutant Clean-up, related to the property at 105 ½ Pleasant Street in Concord. Coverage for Buildings and Wood Chip Stock at 800 Ricker Road in Pembroke was listed as location 2. Equipment Coverage was noted for Backhoe, Skid Steer, Loader, any new mobile equipment, employee tools and equipment, rented mobile equipment, and rental expenses. Automobiles and Equipment included four pick-up trucks, one van, one tractor trailer, and two trailers. Commercial Crime rider was noted for employee dishonesty, depositor’s forgery, money and securities-inside, and money and securities-outside. The General Liability section included coverage for loss of the steam and cogen base loads, employee benefits, and the vacant land at 287 Main Street in Concord (37 acres). Audit was unable to verify the premium cost related specifically to the land at

287 Main Street (site of the future plant). Finally, an umbrella summary indicated specific coverages per occurrence.

Inclusion of the wood yard insurance related premium is reasonable due to the triple net lease signed and approved per Order 24,740.

Workmen's Compensations Account 6-6577 \$31,312

Audit was provided with the December 2008 Certificate of Insurance which outlined the Workers' Compensation and Employer's Liability statutory limits and Excess Insurance limits for the year January 1, 2008 through December 31, 2008.

Audit was also provided with the Workers Compensation Experience Rating sheet dated 12/24/2008. The premium noted on the rating sheet, for the year beginning January 1, 2009 was \$36,287, an increase of 16% over that booked in 2008.

Miscellaneous General Expenses Account 6-6615 \$13,214

Audit reviewed one entry in the amount of \$7,800 which posted in January. The item was explained to be cash Christmas gifts to the employees. Please refer to the Non-recurring Expense section of this report.

Truck and Loader Maintenance Account 6-6625 \$10,656

Audit requested information relating to an entry in April in the amount of \$3,829. The amount, paid to Guimond's Auto Body was for damage to the Dodge Dakota pickup truck involved in an accident. Please refer to the Non-recurring Expense section of this report.

Truck and Loader Expense Account 6-9200 \$33,515

One entry in the amount of \$9,200 posted on October 17, 2008 was verified to an invoice from Chadwick BaRoss for the rental of a loader from October through November 2008. Please refer to the Non-recurring Expense section of this report.

PAYROLL

Total payroll per the filing Schedule 1-B \$1,079,544 was verified to the CPA compilation of wages and salaries (including holidays, sick time, etc.) and employer payroll taxes, without exception.

Payroll taxes at year end reflected zero expense, as the employees' taxes are withheld weekly and remitted weekly. The profit and loss statement in the filing does not reflect the post closing balances in the 6-5200 FICA, 6-5202 SUTA, nor the 6-5203 FUTA.

The Officer Receivable, on the balance sheet in account 1-1255 credit balance \$4,876 represents funds owed to M. Saltsman for deductions taken from payroll in error. Because of the cash flow issues of the Company, he chose to postpone being repaid, until the Company had a more stable cash flow.

The filing item 14 in accordance with Puc 1603.03 (b), Officers and compensation, reflected compensation for Mark Saltsman which was \$3,927 less than the payroll register reviewed by Audit. The variance was due to the incorrect listing in the filing of Mr. Saltsman's taxable wages, that is, gross wages after pretax deductions. Total gross payroll was verified to the payroll register to be \$115,401. As discussed earlier, the management fee paid to Peter Bloomfield reflected \$1,537 higher than the year end GL. The increases noted corresponded for 2008 to the CPI at year end, rather than anniversary, and the CPI for 2009 was incorrect. While these two items were noted, production pro forma noted on the payroll filing schedule 1-B, reduced the total for the year by \$50,000. Therefore, Audit does not recommend any further adjustment to the filing.

Employee Benefits

The Company offers medical insurance through Harvard Pilgrim, AARP United Health Care, and Medicare through Blue Cross-Anthem; dental insurance through MetLife Dental; life insurance through Sun Life; and disability insurance through Aflac. Additional cafeteria plans include: accidental disability insurance, supplemental life insurance, hospitalization insurance, and cancer insurance. The cafeteria plans above are provided through Aflac. All of the insurance benefits were compiled by the William Gallagher Insurance agency.

Concord Steam pays 100% of single person health, dental, and life insurance. Any additional family coverage is paid proportionally by the employee. Aflac elections are paid in full by the employee. Audit noted the year end balance in account 6-6585, Employee Medical Dental, etc. Insurance account to be \$147,287

Fidelity Investments is the plan administrator of the SEP/IRA. Audit reviewed the payroll register and noted that the company match of \$8,272 toward the SEP/IRA was granted to seven management level employees, at differing percentages of the employee SEP/IRA contribution. The total general ledger (account 2-3050) amount for the SEP/IRA was \$25,519 including the match above.

Cost of Energy

Schedule 1, Attachment 5 of the filing reflects the cost of energy revenue for the calendar year 2008 of \$2,522,115. Audit verified that the following general ledger accounts comprise the cost of energy expenses. The balances at the end of the test year 12/31/2008 are listed below, along with where, on the income statement of the PUC annual report, the amounts can be found:

5-6010 #6 Fuel Oil	\$ 716,239	Income Statement Boiler Fuel
5-6011 Waste Oil	-0-	Income Statement Boiler Fuel
5-6013 Whole Tree Chips	1,208,898	Income Statement Boiler Fuel
5-6014 Pile Wood	-0-	Income Statement Boiler Fuel
5-6015 Wood Procurement	35,000	Income Statement Production Supplies
5-6017 Main Gas	295,735	Income Statement Boiler Fuel
5-6019 Gas Meter Charge	2,272	Income Statement Production Supplies
5-8005 Wood Yard Rent	141,792	Listed part of \$225,555 rent in filing
5-8006 Loader Fuel	27,283	Income Statement Production Supplies
5-8010 Utilities Yard	6,503	Income Statement Production Supplies
5-8015 Heat Yard	2,115	Income Statement Production Supplies
5-8051 Mechanical Repair	389	Income Statement Mntnce Power Equip.
5-8055 Small Tools	160	Income Statement Production Supplies
5-8056 Truck/Loader Repair	-0-	
5-8060 Contract Hauling	28,168	Income Statement Production Supplies
5-8085 Loader Rent	8,599	unknown where on annual report
6-9100 Miscellaneous Office	-0-	
6-9200 Truck/Loader Expense	33,515	Income Statement Mntnce Power Equip.
6-9220 Yard Heat	-0-	
6-9230 Vehicle Registration	1,447	Income Statement Transportation
6-9240 State/Town Fees	-0-	Inc.Stmnt Regulatory Commission
6-9560 Highway Use Tax	550	Income statement Transportation
6-9600 Property Tax Yard	<u>25,113</u>	Income Statement Property Tax Expense
General Ledger CoE Total	\$2,533,878	

Total general ledger expenses (per CPA compilation) exceed the reported Cost of Energy revenue total in the filing by \$11,763. Further detailed review was not conducted, as a concurrent audit of the Cost of Energy is in process. See Dockets DG 09-169 and DG 08-116.

Balance Sheet and Income Statement

Audit reviewed the accounts on both the balance sheet and income statement to ensure that each account requiring investigation had been audited.

Prepayments

The total prepaid accounts on Table 18 of the PUC annual report reflect \$40,296. The total agrees with the external accountant's compilation. Specifically, the Table reflects:

	Beginning	Debits	Credits	Ending
Taxes and licenses-property tax	\$ 5,656	\$756	(\$-0-)	\$ 6,412
Insurance	61,476	-0-	(29,096)	32,380
Other	<u>3,146</u>	<u>-0-</u>	<u>(1,642)</u>	<u>1,504</u>
Total Prepaid	\$70,278	\$756	(\$30,738)	\$40,296

The external accountant's compilation of year-end balances reflects:

Account 1-2052 Prepaid Property Tax- <u>Yard</u>	\$ 6,412
Account 1-2045 Prepaid Insurance	16,235
Account 1-2050 Prepaid Miscellaneous	16,145
Account 1-2053 Prepaid <u>Yard</u> Expenses	<u>1,504</u>
Total Prepaid	\$40,296

Exhibit 4 of the filing, the balance sheet, reflects the prepayment total of \$40,296 which, as outlined above, does include \$7,916 related to the wood yard.

Earned Surplus

Earned Surplus noted on the PUC balance sheet and filing in the amount of \$3,199,708 is the net of a credit balance noted in account 3-4500, Retained Earnings \$4,340,433 and a debit balance in account 3-4022, Treasury Stock \$873,000. Audit was told that the 432 shares of Treasury stock were booked in 1992, at cost. The amount noted on the Earned Surplus line does include the net loss for the test year, reported as \$267,723 (including below the line items).

Audit identified the following non-recurring items, and the Company concurred:

Non-recurring Expenses Relating to the New Plant

Rental Fees/Turbines account 5-7085 \$ 1,500
Rent paid for the use of a private pickup truck was for transporting staff to Veasy, ME for the turbine work for the new project.

Engineering Consultants account 6-6555 \$ 3,750
Invoice from Golde Planning relates to site services and conceptual maps for the new plant

Other Consultants Account 6-6565 \$15,000
Three of the eleven entries noted in the account were verified to invoices from Janvier Associates for “obtaining financing for expansion of the new plant and renovation of the old steam lines as part of relocating the steam facility to a new site”.

Insurance Expense Account 6-6576 \$ 915
Audit noted that January through May reflected regular debits of \$183, with a memo of “New Plant Insurance”.

Non-recurring Expenses

Attorneys expense account 6-6545 \$2,935
for legal services related to the last rate case in Docket DG 07-076.

Accountants expense account 6-6550 \$1,539
for accounting services specifically related to the last rate case DG 07-076

Miscellaneous Expense account 6-6615 \$7,800
The Christmas bonus paid to employees in 2007 should not be considered a regular expense, as a bonus for the test year was noted in account 6-6515, Employee Recruiting.

Truck and Loader Maintenance account 6-6625 \$3,829
Expense relating to an automobile accident involving the Dodge Dakota company pickup truck.

Truck and Loader Expense account 6-9200 \$9,200
rental expense for one month for a front end loader (The filing schedule 1, attachment 2 dated 12/20/2009, contains a notation that the rental of the loader would be included in the Cost of Energy calculation.)

Non-recurring Revenue

Insurance proceeds Miscellaneous Income account 4-5115 \$114,864

Greenhouse Gas credits Miscellaneous Income account 4-5115 \$17,970

Cash settlement from an Insurance Broker account 4-5115 \$17,000

Audit Issue #1

Duplicate Fixed Asset Costs

Background

The Pleasant St Manhole project contains duplicate costs of \$3,398 equal to the Ralph Pill Manhole project.

The depreciation expense (1.33%) booked for this asset was \$45, thus depreciation expense was overstated and the accumulated depreciation was understated.

Issue

Fixed Assets were overstated, depreciation expense was overstated, and accumulated depreciation was understated.

Audit Recommendation

The duplicate costs booked, \$3,398, need to be reversed in both Underground Mains general ledger account and the filing. Related depreciation, \$45, also needs to be reversed in both general ledger and the filing.

Company Comment

Attached are the detail job activity sheets for both projects. We cannot find the duplicate costs mentioned.

Audit Comment

Referencing page 2 of the job activity sheets attached for both projects (see Company Comment), the Underground Mains Net Activity amount totaled \$18,341.43 (\$14,943.74 + 3,397.69). This equals the amount listed as the total for the Pleasant St Manhole job on the Company's Property Records. The Property Records list the Ralph Pill job for a total of \$3,398. One other addition is listed, job 20307 totaling \$7,520.

Pleasant St Manhole Job	\$18,394
Ralph Pill	3,398
20307	<u>7,520</u>
	\$29,312 (ties to Schedule 11 of NHPUC report)

Audit Issue #2

Truck Loan Purchase

Background

A truck purchase was \$2,544 more than authorized by Commission Order 24,832.

Issue

A truck loan which had been granted by the Commission on March 14, 2008, Order No. 24,832 stipulated a \$24,000 interest free loan to be repaid in 60 monthly installments. Audit requested the agreement and it shows the Company also paid a down payment of \$1,741.

The Company reported that the dealer made an error and was unable to obtain the 0% interest rate. The Company also stated that to rectify the situation the dealer lowered the cost of the vehicle by the amount the interest would generate. The purchase price of \$23,063 at 2.9% interest for 60 months calculates to a total cost of \$24,803 which is \$803 more than the Commission Order stipulates. Also stipulated in the Order was that the Company, within 30 days of taking delivery, was to file the purchase and loan agreement. This was not done.

Audit Recommendation

The Company should file the agreement and explain the overrun.

Company Comment

The Company agrees and will file the agreement and explain the overrun.

Audit Comment

Audit concurs with the Company response.

Audit Issue #3

Truck Loan Interest Adjustment

Background

Adjusting entry #6 was to reclassify loan payments for a loader inadvertently recorded in the fixed asset account to the Truck Loan Interest account 6-6638.

Issue

Loan payments recorded in the fixed asset account were adjusted to the Truck Loan Interest account 6-6638 but should have been reclassified to Loader Loan Payments and related interest expense accounts.

Audit Recommendation

The Company should establish separate accounts for the loader loan payments.

Company Comment

The Company agrees and will do so.

Audit Comment

Audit concurs with the Company response.

Audit Issue #4

Cash vs. Accrual Accounting

Background

The PUC Chart of Accounts requires that utilities maintain the financial books using the accrual method of accounting, as opposed to the cash basis.

Issue

Audit noted the following instances of the use of the cash basis:

As discussed in the Long Term Debt section of this report, the Company does not accrue interest on debt, rather expenses it as it is paid.

The first entry in the Attorney expense account 6-6545 reflected a credit, posted on 1/14/08 in the amount of \$1,886. The credit was a refund of an expense incurred in 2007 and paid twice in error. This posting resulted in an understatement of the final balance in the Attorney account.

An invoice including late fee for the meter read period 12/5/2008 – 1/5/2009 issued in the amount of \$27,095 which should have posted to the Water/Sewer account 5-6025 was not booked or accrued during 2008, as the invoice was not received until calendar year 2009. The \$27,095 was noted as a pro forma adjustment on the filing, schedule 1, attachment 2 dated 12/20/2009.

Miscellaneous General Expenses Account 6-6615 contained one entry in the amount of \$7,800 which posted in January. The item was explained to be cash Christmas gifts to the employees at year end 2007.

Audit Recommendation

It is recommended that the Company use the accrual accounting method of maintaining the financial records, to comply with the Commission's Chart of Accounts.

Company Comment

The Company agrees and will do so.

Audit Comment

Audit concurs with the Company's response and reiterates the Audit recommendation above.

Audit Issue #5

Property Tax Adjustment

Background

City property taxes reported for the test year on Schedule 1A, December 20, 2009 revision, totaled \$105,901. City property taxes are posted to account 6-6140. At year end, the general ledger reported a balance of \$57,692.

There were two expense entries made in account 6-6140 during 2008: in September, a (\$7,665) cash rebate was received from the city of Concord and in December the Company's accountant made an adjusting entry in the amount of \$65,358 "*to adjust prepaid property taxes to proper balance at 12/31/08.*"

The Company provided Audit with a property tax schedule detailing the reported expense of \$105,901. Audit traced the schedule to the prepaid property tax account in general ledger, account 1-2050. Audit contacted the city of Concord Collection Office for copies of the Company's property billing statements. Per PUC Audit analysis, the tax billings related to the test year totaled \$86,404.

Audit traced three property tax payments totaling \$55,005 to the city's records. The three payments included *interest payments totaling \$8,493 and* of the \$55,005 paid, *\$28,049 was applied to outstanding 2006 tax billings.*

Issue

Based on information provided to Audit, it does not appear that the correct amount for Property Taxes during the Test Year 2008 has been reported.

Penalty Interest is being charged by the City of Concord on late Property Tax payments made by CSC and is not being recorded by the Company.

Audit Recommendation

It is Audit's analysis that the CSC Property Tax Expense for the City of Concord for 2008 should have been reported as \$86,404.

It is Audit's analysis that the CSC Prepaid Property Tax for the City of Concord for 2008 should have been reported as \$24,104.

Audit Issue #5 (continued)

Property Tax Adjustment

Audit Recommendation (continued)

The Company should make sure that interest charged by the City of Concord is posted on the general ledger to account 9-9562, Service/Late fees, a below the line account, as it is not recoverable by Rate Payers.

Company Comment

The Company agrees about the property tax reporting and will do so.

The interest charged is not a late fee and we believe should be booked to interest expense. We agree that late fees and penalties belong to account 9-9562, Service/Late fees, a below the line account, as those costs are not recoverable from Rate Payers.

Audit Comment

Audit applied the accrual basis of accounting in its analysis of the Company's property tax.

Audit understands that interest on tax bills is only assessed on amounts outstanding after the dues dates. Written directly on each City of Concord, New Hampshire Real Estate Tax Bill: "**Amounts outstanding after the due dates incur 12% interest. **Amounts outstanding incur 18% interest after lien.*"

Audit Issue #6

Electricity Sales Adjustment

Background

The CSC reported Electricity Sales of \$149,834. Audit noted that the \$149,834 did not include a (\$375) adjustment recorded in the ledger during June. The December 2008 sale for \$28,260 was not recorded in the Company's ledger. Audit's review of test year statements revealed total Electricity Sales should have been recorded as \$177,719.

Issue

The amount currently recorded for Electricity Sales does not reflect a full year of activity; only 11 months worth of sales have been recorded.

Audit Recommendation

The filing should be adjusted, \$27,885, to properly reflect 2008 Electricity Sales.

Company Comment

The Company agrees.

Audit Comment

Audit concurs with the Company Comment.

Audit Issue #7

Late Fees vs. Interest Paid

Background

Cash flow for Concord Steam appears to be an ongoing problem, as vendor invoices and amounts owed to the senior officers of the company are past due.

Issue

Audit reviewed water and sewer invoices payable to the City of Concord and noted past due amounts.

Past due late fees were also noted on electric invoices received from Unitil.

Audit Recommendation

Until such time as the cash flow of the Company improves, any late fee associated with a past due amount owed to any vendor should post to account 9-9560, Service/Late fees, which is a below the line account.

Company Comment

Interest charged on an overdue bill is not a late fee and we believe should be booked to interest expense.

We agree that late fees and penalties belong to account 9-9562, Service/Late fees, a below the line account, as those costs are not recoverable from Rate Payers.

Audit Comment

Prudent payment of all invoices, in full and on time, would avoid the assessment of any interest charges for balances carried into subsequent months. Audit concurs that such interest on balances carried into subsequent months should not be recovered from rate payers, whether noted as interest expenses or late fees.

Audit Issue #8

Expense vs. capital

Background

A review of a variety of the expense accounts of Concord Steam was conducted to determine the appropriateness of the posting of specific entries as expenses rather than capital costs.

Issue

One entry in the Customer Parts/Supplies expense account, 5-6120, which posted in August, in the amount of \$11,967 was selected for review. The support provided was an invoice from General Insulation Company for 252 feet of foamglas and stratafab foamglas for the "M&S line relocation".

The Company indicated that reimbursement for the work had been received in the amount of \$31,225. This revenue was noted in account 4-5120. A request for clarification of where the difference between the \$31,225 revenue and the \$11,967 expense posted was not provided.

Audit Recommendation

Based on the invoice review, and communication with the Company it appears that this entry would be more appropriately booked as an addition to plant in service, and offset to Contributions in Aid of Construction.

Company Comment

The Company agrees that the \$11,967 should be booked as an addition to plant in service. A large portion of the reimbursement of \$31,225 from the contractor was for labor and installing equipment for temporary heat during construction.

Audit Comment

Audit concurs that the expense tested should have posted to plant, with the credit offset noted in the CIAC account. The specific expense accounts, to which the variance between the revenue of \$31,225 and the identified expense of \$11,967, remain unknown. However, it appears based on the Company comment above, that the full \$31,225 should have been posted to a plant in service account with the offset to CIAC.

Audit Issue #9

Federal Fines

Background

Concord Steam accounted for Federal Fine expenses in account 6-6610. For the test year, the total in the account was \$2,900

Issue

The account is included among others in the Regulatory Commission Expense portion of the Annual Report Administrative and General expenses, which for the year amounted to \$52,908

Audit Recommendation

Account 6-6610 is not a ratepayer expense and should be reflected on the Annual Report income statement line for account 1527, Non-operating Revenue Deductions. Further, the \$2,900 should not be included in expenses for the test year. The detail of what comprised the entire Regulatory Commission expense was identified in response to Technical Session data request #1-9.

Company Comment

The Company agrees.

Audit Comment

Audit concurs with the Company response.

PETER BLOOMFIELD
CONCORD STEAM CORPORATION
PO BOX 2520
CONCORD NH 03302

SARAH KNOWLTON
MCLANE GRAF RAULERSON & MIDD
PO BOX 459
PORTSMOUTH NH 03801

Docket #: 09-139 Printed: February 11, 2010

FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),
WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:
DEBRA A HOWLAND
EXEC DIRECTOR & SECRETARY
NHPUC
21 SOUTH FRUIT STREET, SUITE 10
CONCORD NH 03301-2429

PURSUANT TO N.H. ADMIN RULE 203.09 (d), FILE DISCOVERY

DIRECTLY WITH THE FOLLOWING STAFF

RATHER THAN WITH THE EXECUTIVE DIRECTOR

LIBRARIAN
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

BULK MATERIALS:

Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

MATTHEW FOSSUM
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

STEPHEN FRINK
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

AMANDA NOONAN
CONSUMER AFFAIRS DIRECTOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429