STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: May 15, 2020
AT (OFFICE): NHPUC

FROM: PUC Audit Staff

SUBJECT: Public Service Company of New Hampshire d/b/a Eversource Energy
DE 20-005 Audit of Stranded Costs Following Divestiture
FINAL Audit Report

TO: Tom Frantz, Director NH PUC Electric Division
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Introduction

PUC Audit was directed to conduct an audit of the costs associated with the Rate Reduction Bonds (RRB) and associated stranded costs relating to the divestiture of the Eversource generating facilities. Dockets associated with the divestiture, and the ultimate opening of the instant DE 20-005 docket, as summarized in the testimony of Robert Bersak in DE 20-005, are:

- DE 11-250 and DE 14-238, Order 25,920 issued 7/1/2016 approving the 2015 restructuring and rate stabilization agreement;
- DE 16-817, Order 25,956 issued 10/21/2016 directing Eversource to remove the mercury boilers at the Schiller Station;
- DE 16-817, Order No. 25,967 issued 11/10/2016 approving the auction design;
- DE 17-124, Order 26,078 issued 11/28/2017 approving the sale of thermal generation facilities;
- DE 17-124, Order 26,080 issued 11/29/2017 approving the sale of hydroelectric generating facilities;
- DE 17-096, Order 26,099 issued 1/30/2018 determining findings of fact and issuance of the financing order;
- DE 20-005, Order of Notice issued 1/22/2020 setting the date for a prehearing conference on 2/14/2020 regarding the Audit of Stranded Costs Following Divestiture.

External Audit

Deloitte & Touche, LLP conducted an Agreed upon Procedures review of the costs associated with the RRB and resulting stranded costs. The review did not result in any suggested adjustments to the costs, and did not express an opinion or conclusion on the stranded costs from the generation divestiture. The agreed procedures did not include a request for such an opinion or conclusion. The report resulting from the External Audit was dated 11/26/2019, and was included in the filing as Attachment RAB-2. PUC Audit spot-checked the "haphazard invoice selections" selected by Deloitte, and relied on the verification of the totals within the filing to all schedules within the filing.

Filing Summary

The testimony of Robert Bersak, and Attachment RAB-1, page 2 of 13, at a high level demonstrate:

Aggregate RRB issuance	$(635,663,200)
Filed costs	$ 654,046,809
Filed stranded costs	$ 18,383,609

Bond Issuance $(635,663,200)

Audit verified the reported bond issuances, as approved in the Financing docket in DE 17-096 via Order 26,099 on 1/30/2018, to a "Flow of Funds" closing document dated May 8, 2018 between Eversource Energy and Goldman Sachs. The funds were issued as:

Source of Funds	Issuance Size	Price	OID	Proceeds
Series 2018-1 Class A-1 Notes	$ 235,900,000.00	99.99780%	$ 5,189.80	$ 235,894,810.20
Series 2018-1 Class A-2 Notes	$ 111,600,000.00	99.99611%	$ 4,341.24	$ 111,595,658.76
Series 2018-1 Class A-3 Notes	$ 288,163,200.00	99.99741%	$ 7,463.43	$ 288,155,736.57
	$ 635,663,200.00		$ 16,994.47	$ 635,646,205.53
	Less Underwriting Fees and Expenses			$ (2,867,906.02)
	Proceeds Wired to Trustee			$ 632,778,299.51
	Third Party Fees and Expenses			$ (2,103,585.68)
	Net Proceeds Wired to PSNH			$ 630,674,713.83

Audit recalculated the Original Investment Discount (OID) without exception. Goldman Sachs issued the bonds, with the proceeds sent to Eversource through the Bank of New York Mellon via the Depository Trust Company (DTC), as Trustee.

Refer to the Issuance Costs portion of this report, referenced in the filing as attachment RAB-1, page 13 of 13, for specific testing of the issuance costs.

Divestiture Related Costs $654,046,809

Attachment RAB-1, page 2 of 13, summarized the costs related to divestiture as:

Net book value of generating assets and inventory	$ 718,156,425
Sale proceeds	$(196,321,399)
Plant-related stranded costs	$ 521,835,026
Scrubber deferral	$ 98,213,258
Reduction for deferred equity return per settlement	$ (25,000,000)
Net deferral	$ 73,213,258
Regulatory assets and liabilities	$ 44,071,225
JP Morgan auction advisor fees	$ 3,125,000
Employee separation costs	$ 6,280,508
Environmental liability insurance premiums	$ 943,062
Stranded administrative and general expenses	$ 5,459,403
Schiller mercury boiler remediation project	$ 48,433,022
Other divestiture costs	$ 7,929,353
Transaction-related costs	$ 116,241,574
Less: net present value of tax benefits	$ (64,050,569)
Plus: issuance costs	$ 6,807,520
Total costs eligible for securitization	$ 654,046,809

Final Accounting

PUC Audit was provided with a summary spreadsheet documenting the journal entries that moved the Generation (segment 6F) divestiture related account balances to the Distribution (segment 06), beginning in May 2018, continuing through October 2019. The May 2018 month-end journal entry, with over 40 line items, at a very high level, demonstrated:

6F.60100.14601X	$ 708,484,705	
06.60100.23401X		$ (708,484,705)
6F.24000.182GDV		$ (526,974,633)
06.12310.182RRB	$ 635,663,200	
06.12310.182RRT	$ 62,963,244	
06.12310.242RRB	$ 9,858,261	
6F.24000.181XXX	$ 1	$ (2,602,338)
6F.24000.182XXX	$ 6,176,608	$ (140,366,401)
6F.24000.186XXX		$ (44,051,823)
6F.24000.189XXX		$ (1,800,142)
6F.24000.225SF0	$ 493,910	
6F.24000.226XXX	$ 1	$ (218,931)
6F.24000.230010	$ 1,450,032	
6F.24000.242RRB		$ (4,988,486)
6F.24000.254XXX	$ 4,397,500	
Total Journal Entry	**$1,429,487,460**	**$(1,429,487,460)**

Amortization of the initial $635,663,200 Rate Reduction Bond was authorized to begin through the Stranded Cost Recovery Charge in 2018.

Journal entries identified and booked after May 2018 through December 2019 were posted to the Distribution segment 06, account 174RRB, Miscellaneous Current Assets-RRB, offset to several 6F deferred accounts:

	06-182RRB	06-242RRB	06-174RRB	net of 40 6F deferrals
May 2018	$ 635,663,200	$ 9,858,261	$ -	$ (645,521,461)
June 2018	$ -	$ (9,858,261)	$ 26,536,939	$ (16,678,679)
July 2018	$ -	$ -	$ (580,182)	$ 580,182
Aug. 2018	$ -	$ -	$ (475,731)	$ 475,731
Sept. 2018	$ -	$ (713,573)	$ (25,481,026)	$ 26,194,599
Dec. 2018	$ -	$ 713,573	$ 9,375,448	$ (10,089,021)
March 2019	$ -	$ -	$ 1,457,962	$ (1,457,962)
June 2019	$ -	$ -	$ 852,452	$ (852,452)
Sept. 2019	$ -	$ -	$ 2,325,668	$ (2,325,668)
Oct. 2019			$ (1,087,325)	$ 1,087,325
Dec. 2019	$ -	$ -	$ 5,460,613	$ (5,460,613)
NET	$ 635,663,200	$ -	$ 18,384,819	$ (654,048,019)

Net book value of generating assets and inventory $718,156,425

Attachment RAB-1 Page 3 of 13, Bates Page 0058, lists the $718,156,425 net book value of the generating assets and inventory. Audit verified the reported figures to the Company's generation segment 6F general ledger balances as of February, 2018.

By generating facility types, RAB-1 page 3 of 13, summarized, reflects the net book values:

Thermal	$657,192,216
Hydro	$ 59,910,266
Wyman IV	$ 1,029,673
ARCO	$ 24,269
Total (rounded)	$718,156,424

Thermal net book value $657,192,216

Audit verified the reported figures to clearing entries in the Company's generation segment 6F general ledger accounts as of February, 2018. The presentation of the specific line items has been adjusted to reflect the accumulated provisions and other offsets, then assets, resulting in the net book value.

108010	Accumulated provision depreciation	$	(554,864,632)
108AR0	Accumulated reserve ARO	$	(702,133)
108030	Accumulated provision cost of removal	$	(56,926)
108040	Accumulated provision salvage	$	(967,270)
111010	Accumulated provision for amortization	$	(91,275)
122010	Accumulated provision for amortization	$	(113,468)
236180	Taxes accrued	$	214,581
232210	Liability-Gypsum contract	$	(1,200,000)
	Acumulated Provisions and other offsets	$	(557,781,123)

6F Account	Description	Thermal Amount
101010	Utility plant	$ 1,086,341,863
101100	Utility plant-ARO	$ 1,558,738
105010	Electric plant held for future use	$ 211,876
121010	Non-utility plant	$ 120,600
107010	CWIP	$ 5,848,261
134P60	Merrimack landfill trust	$ 857,261
154010	Materials and supplies inventory	$ 27,098,942
165AP0	Prepaid license agreement	$ 128,937
154LS0	Limestone inventory	$ 2,708,841
158110	SO2 allowances non-current	$ 17,498,789
158120	NOX allowances current	$ -
158180	CO2 allowances current	$ 1,204,952
151020	Fuel stock no 2 oil Merrimack	$ 22,680
151020	Fuel stock no 2 oil Newington	$ 154,369
151020	Fuel stock no 2 oil Lost Nation	$ 152,406
151040	Jet fuel Merrimack	$ 298,394
151040	Jet fuel Schiller	$ 73,562
151040	Jet fuel White Lake	$ 218,526
151100	Fuel stock wood Schiller	$ 778,607
151130	Fuel stock no 6 oil Newington	$ 3,789,113
151230	Fuel stock no 6 oil Newington	$ 5,321,704
151330	Fuel stock no 6 oil Schiller	$ 696,513
151330	Fuel stock no 6 oil Newington	$ 1,720,799
151A10	Fuel stock coal pile Merrimack	$ 24,543,206
151A10	Fuel stock coal pile Schiller	$ 107,556
151B10	Fuel stock coal pile Merrimack	$ 30,118,529
151B10	Fuel stock coal pile Schiller	$ 922,969
151C10	Fuel stock coal pile Merrimack	$ 2,096,517
151D10	Fuel stock coal pile Schiller	$ 378,829
	Assets	$ 1,214,973,339
	Net book value Thermal	**$ 657,192,216**

Audit reviewed the February 2018 $1,086,341,863 Unitized Plant in Service to account 101010 to a spreadsheet that listed the asset name, location, work order number, asset description, in service date, month, unitized amount, and account ID. Within the general plant structures, Audit noted costs for landscaping, and determined that the Company was in compliance with FERC Uniform System of Accounts regarding operations and maintenance vs. capitalized costs for landscaping, yard improvements, and shrubs. Audit reviewed two office servers in Berlin, NH and Windsor, CT. These physical personal computers perform the server function in a computer network. The records in the Continuing Property Records (CPR) represent the cost of the servers and software needed to run them. The Company purchased two independent servers and located one in Berlin, NH and the other in Windsor, CT. As they are identical, they cost the same. The generation utility plant in service items are identified in the description field, summarized in the chart below:

Berlin office server	$	9,951
General plant structures	$	293,793
Lost Nation unti 10	$	3,714,057
Merrimack Station	$	702,651,742
Schiller	$	222,755,263
Newington	$	151,206,075
Personal computers	$	675,993
Fully depreciated software	$	91,275
Two-way radios	$	27,524
Vehicles-NH	$	2,235,553
White Lake Unit 10	$	2,670,687
Windsor office server	$	9,951
Total	$	1,086,341,864

Audit also verified the overall retirement credit of $(1,086,341,864) to the sum of 63 journal entries in the detailed general ledger during February 2018.

Audit reviewed the February 2018 $1,558,738 Plant in Service Asset Retirement Obligations credited to account 101100, and also on a spreadsheet that shows the obligations relate to the coal ash landfill and asbestos.

Audit reviewed $211,876 on a February 2018 spreadsheet that was booked to 105010 Electric Plant Held for Future use that was for land and rights of way related to Newington Station and Merrimack Station. The $211,876 credit to the 105010 was noted in February 2018.

Audit reviewed $120,600 that was credited to account 121010 Non-utility Plant in February 2018 that consists of the Newington Station Office Building and the concrete building roof.

Audit reviewed the February 2018 $5,848,261 CWIP balance, booked by work order, was credited to account 107010 in February 2018. There were ongoing debits and credits throughout 2018, with all activity zeroed at year-end 2018.

Audit reviewed the $(554,864,632) Accumulated Depreciation Reserve account 108010 debit entry in February 2018, relating to the thermal generation assets spreadsheet. The assets in the sub-ledger PowerPlan were done through a manual retirement adjustment that is system created. The $(554,864,632) reserve amount consists of the difference $1,086,250,588 booked to Plant in Service account 101010 less $(531,385,956) PowerPlan Deprecation Reserve adjustment credits to the 101010 Plant in Service account. PowerPlan-Asset Management debited 108010 as the offset to the 101010 credit to retire the assets. This resulted in a large debit balance in the account.

When the PowerPlan-Depr Module Reserve Adjustment process was run to clear the 108010 balance in the sub-ledger, the system automatically created a transaction to zero out the dollars in 108010 (PowerPlan assigns a Source of DEPR MANUAL to this transaction, but it is system created). When the results of these two detailed transactions are netted, the original balance in the 108010 can be ascertained:

	108010	
		Balance at time of sale
Offset of the retirement of THERMAL assets	1,086,250,588.04	
System Generated Reserve Adj to zero-out account		531,385,956.27
Result of Adj is a Zero Bal		0.00
Balance of 108010 at time of sale =		554,864,631.77

The difference between the $1,086,250,588 above, and the overall Utility plant in account 101010 figure $1,086,341,863 or $91,275, relates to software, discussed below, for $(91,275).

Audit reviewed the February 2018 $(702,113) was debited to Accumulated Reserve for asset retirement obligations, account 108AR0. The obligations relate to asbestos and hazardous contaminants in the fossil fuel plants.

Audit reviewed the February 2018 $(56,926) debited to the Cost of Removal account 108030 on a spreadsheet provided by the Company, as well as the $(967,270) salvage credit was debited to 108040. By year-end, the accounts reflected zero balances.

Audit reviewed the February 2018 $(91,275) credit balance that was debited to the Accumulated Provision for Amortization account 111010 related to computer software according to a PDF file of the GL detail. The computer software was called nMarket that was used to create generation offers and load bids for power plants to ISO-NE before the divestiture of the NH generators. The nMarket was also used to collect Locational Marginal Pricing in the day ahead market.

Audit reviewed the February 2018 $(113,468) Accumulated Provision for Amortization debited to account 122010, bringing the balance to zero. The GL spreadsheet detail indicates the charges relate to the Newington Station building and property.

Audit reviewed the February 2018 $857,261 Merrimack Landfill Trust proceeds credited to account 134P60, cleared the account to within one penny. The Merrimack Landfill Trust was created to cover closure and post-closure expected costs for the

Merrimack Station Coal Ash Landfill, and any expected engineering studies that would be funded through any monies required to be held. The monies were deposited and kept in a cash account held in BNY Mellon for the benefit of the landfill, where it earned interest that remained within the trust account. The purchase and sale agreement section 5.3 outlined the responsibilities of the buyer and seller relating to the trust account. Schedule 3.15 of the agreement supported the inclusion of the trust as part of the sale.

Audit reviewed the February 2018 $27,098,972 that was credited to the Materials and Supplies Inventory account 154010, based on a 99.45% fossil allocation of the total $27,247,999. The Company also provided:

Maximo Report-allocated to fossil and hydro	$27,178,843
Penciled amount on page 9 Maximo report	$27,247,999
Variance	$ 69,156

The $69,156 or 0.25% difference between the Maximo report and the penciled figure (noted as the amount to book to the general ledger) on the same report, was noted by the Company to be "*materially correct*". The Company did not provide a specific detailed report of inventory materials but indicated they would provide one if they were able to create one. Audit was not provided with the support for the penciled figure. As a result, Audit recommends that the Materials and Supplies Inventory be adjusted as follows:

As reported	$27,247,999 * 99.45% =	$27,098,972	
Actual Maximo	$27,178,843 * 99.45% =	$27,029,359	
	Reduce filing	**$ 69,613**	**Audit Issue #1**

Audit reviewed a $128,937 Prepaid License charge related to prepaid maintenance that was noted in account 165AP0. The balance was credited in February 2018, bringing the account to zero. The Company provided a signed fifteen year License Agreement, dated May 2005, through 2020, that indicates the agreement is related to airspace rights above the Boston and Maine Railroad.

Audit reviewed a $2,708,841 credit in Limestone Inventory booked to account 154LS0 in February 2018 and verified the balance to the inventory report. Activity within the account continued through July 2018, with equal debits and credits posted. The account was zero at the end of July 2018. The limestone is related to the Sulfur Dioxide Scrubber at Merrimack Station. During the combustion process the sulfur in the coal combines with oxygen in the air to form SO2. To remove the SO2, the flue exhaust from the coal-fired power plant is commonly bubbled through a mixture of limestone and water.

Audit reviewed a $17,498,789 in non-current SO2 allowances related to the SO2 allowance auctions related to Merrimack Station. The charges were credited to account 158110 in February 2018, bringing the balance in the account to zero. Audit reviewed the January 31, 2018 inventory file provided by the Company that showed the EPA OTR credits and allowances. Audit also reviewed $1,204,952 in current CO2 allowances for Renewable Energy Credits. The balance was credited in February 2018 bringing account

158180 to zero. Audit reviewed the January 31, 2018 inventory file provided by the Company that showed EPA earned allowances and credits.

Audit reviewed the February 2018 $71,394,278 account 151 Fuel Stock Inventory to the monthly fossil fuel activity reports that was provided to Deloitte. The fuel stock inventory reports contained the beginning balance, receipts of inventory, amount of fuel burned to arrive at the monthly fuel ending balance. The total is the sum of the eighteen identified fuel stock accounts identified on RAB-1, page 3 of 13 from lines 24 through 41.

- Accounts 151020 sum to $329,455 that was credited in February 2018. An additional entry of $33,237 was credited to the account in February, and debited to clear the account in March 2018.
- Accounts 151040 sum to $590,482, which was credited in February 2018. A residual immaterial balance of $71 remained and was credited in March 2018 to bring the account to zero.
- Account 151100 $778,607 was credited in February 2018, leaving a balance in the account of $9,171. That balance was cleared in March 2018, and equal debit and credit entries were posted from April through July 2018, monthly leaving the account at a zero balance.
- Account 151130 balance of $3,789,113 was credited in February 2018, bringing the account to zero.
- Account 151230 balance of $5,321,704 was credited in February 2018, bringing the account to zero.
- Accounts 151330 sum to $2,417,312, and that balance on the general ledger was credited in February 2018, bringing the account balance to zero.
- Accounts 151A10 sum to $24,650,762. That balance was credited in February 2018 bringing the account to zero.
- Accounts 151B10 sum to $31,041,498. That balance was credited in February 2018 bringing the account to zero.
- Account 151C10 balance of $2,096,517 was credited in February 2018, leaving one penny in the account. That penny was credited in April 2018.
- Account 151D10 balance of $378,829 was credited in February bringing the account to zero.

Audit reviewed $214,581 in Taxes Accrued that was netted, via two journal entries, out of account 236180 in February 2018 and July 2018 adjustment. The property taxes consist of town taxes to be refunded as well as state taxes due at closing for Lost Nation, White Lake, Newington, Schiller, and Merrimack Stations.

Audit reviewed the amount $(1,200,000) and a related debit to liability account 232210 for a Gypsum Contract Liability. An additional $24,598 had also been in the account and was debited to clear the account to zero in February 2018. Gypsum is a by-product of burned coal. The Company owed National Gypsum $1.2 million or $150k per month from May-December 2017 related to the gypsum disposal.

Audit reviewed the PowerPlan whole life group depreciation/amortization rates to the approved rates in the June 2003 Deprecation Study, 2013-2018 Deprecation Group Rate Depreciation Report, and General Plant and Intangible Rates.

Hydro Assets

6F Account	Description	Hydro Amount
101010	Utility Plant	$ 84,303,698
101100	Utility Plant-ARO	$ 14,255
121010	Non-Utility Plant	$ 16,260
107010	CWIP	$ 2,089,936
108010	Accumulated Provision Depreciation	$ (26,913,930)
108AR0	Accumulated Provision ARO	$ (8,829)
108030	Accumulated Provision cost of removal	$ 484,850
108040	Accumulated Provision Salvage	$ 592,183
111010	Accumulated Provision for Amortization	$ (1,527,983)
154010	Materials and Supplies Inventory	$ 152,775
236180	Taxes Accrued	$ 707,050
Total Netbook Value Hydro Assets		$ 59,910,265

Audit reviewed the September 2018 $84,303,698 Unitized Plant in Service to account 101010 to a spreadsheet that listed the asset name, location, work order number, asset description, in service date, month, unitized amount, and account ID. The assets are summarized in the chart below:

Amoskeag	$ 16,870,965
Ayers Island	$ 15,018,633
Berlin	$ 1,933
Canaan	$ 4,855,190
Eastman Falls	$ 10,118,019
Garvins Falls	$ 13,552,904
General Plant-NH	$ 1,727,213
General Plant-VT	$ 3,826
Gorham	$ 3,886,425
Hooksett	$ 2,157,187
Jackman	$ 6,537,897
Smith	$ 9,403,998
Software	$ 169,508
Total	$ 84,303,698

Audit reviewed a September 2018 $14,255 Plant in Service Asset Retirement Obligations credited to account 101100 and identified on a spreadsheet that relate to the hydro dam dismantlement and asbestos charges.

Audit reviewed the September 2018 balance of $16,260 that was credited to account 121010 Non-Utility Plant that consists of land and land rights of Garvins Falls.

Audit reviewed the September 2018 $2,089,936 CWIP balance, booked by work order to account 101010 that consisted of various hydro projects such as fish ladders, new actuators, fuel line replacement, substation, and other hydro facility work. The balance was credited to account 101010 in September 2018.

Audit reviewed the ($26,913,930) Accumulated Depreciation Reserve balance reflected in account 108010, which included the FERC 300 hydro generation accounts, to a debit entry within the detailed general ledger and to a detailed spreadsheet for September 2018.

Audit reviewed the September 2018 ($8,829) balance and related debit clearing entry, booked to Accumulated Reserve for ARO account 108AR0 that related to the hydro facilities.

Audit reviewed the September 2018 ($1,527,983) credit balance that was reflected in the Accumulated Provision for Amortization account 111010 related to intangible assets franchise rights and consents, and computer software. The debit clearing the balance was noted in September 2018.

Audit reviewed the $484,850 booked to the Cost of Removal account 108030 in September 2018 on a spreadsheet provided by the Company as well as the $592,183 salvage credit booked to 108040 in September 2018. Each balance was credited to the respective accounts in September 2018, to clear the accounts.

Audit reviewed the $152,775 that was reflected in Materials and Supplies account 154010 in September 2018 related to the Hydro Plants account. Based on a review of the Hydro Final Closing Sale and Maximo details there was $148,677 in inventory booked. This is a $4,098 difference. The Company indicated the 2.7% difference in the systems was "*within the normal and acceptable difference to reconcile the two systems*". Based on the Company response the $152,775 inventory booked to account 154010 on attachment RAB-1 Page 3 should be **reduced by $4,098 to $148,677**. **Audit Issue #1**

Audit reviewed $707,050 in Taxes Accrued booked to account 236180 in September 2018. The property taxes consist of $379,184 town taxes to be refunded as well as $327,866 states taxes due at closing for the hydro facilities. The town taxes are based on the allocation of June 2018 estimated payments from March-September 2018. The new owner is to reimburse the Company for August 25, 2018-September 2018. The new owner is responsible for the 2nd half actual bills issued in November 2018. The state taxes estimate is based on the allocation of 2017 taxes. Eversource was billed for the entire year on all hydro assets. The new owner, HSE Energy, reimbursed Eversource for the assets. Before 60 days after the closing, the NH DRA sent the Company the Hydro assessment value. The state tax was trued up in October 2018.

Audit reviewed the PowerPlan whole life group depreciation/amortization rates to the approved rates in the June 2003 Deprecation Study, 2013-2018 Deprecation Group Rate Depreciation Report, and General Plant and Intangible Rates.

Wyman IV Assets

6F Account	Description		Hydro Amount
101010	Utility Plant	$	6,985,270
108010	Accumulated Provision Depreciation	$	(6,653,780)
143000	Receivable for October 2017 Settlement	$	104,876
151030	Fuel # 6 Oil-Wyman IV	$	596,807
236180	Taxes Accrued	$	(3,500)
Total Netbook Value Wyman IV Assets		$	1,029,673

Audit reviewed the November 2017 $6,985,270 Unitized Plant in Service to a credit clearing entry in account 101010, and to a spreadsheet that listed the asset name, location, work order number, asset description, in service date, month, unitized amount, and account ID.

Audit reviewed the ($6,653,780) Accumulated Depreciation Reserve account debit clearing entry to account 108010 that included the Wyman IV generation accounts. The assets in PowerPlan were done through a manual adjustment in PowerPlan on October 31, 2017. The screenshot of PowerPlan provided to Audit includes the $6,985,270 booked to Plant in Service account 101010 less the reserve amount of ($6,653,780) to arrive at a net value of $331,490.

Audit reviewed a November 2017 month-end close $104,876 payment negotiated in the November 1, 2017 settlement agreement, booked to account 143000 Other Receivables. The net $104,876 is based on the November 1, 2017 Settlement Amount of $121,496, less a net payment invoice credit of ($16,621) related to the joint ownership net capacity revenue and processing fee.

Audit reviewed a November 2017 journal entry that was booked during the closing of the sale to account 151030 that reflects the Wyman IV materials and supplies inventory balance sale closing amount, $596,807.

Audit reviewed the journal entry that was booked to account 236180 for Taxes Accrued that resulted in a ($3,500) credit for taxes from November 2017 month end close.

Audit reviewed the PowerPlan whole life group depreciation/amortization rates to the approved rates in the June 2003 Deprecation Study, 2013-2018 Deprecation Group Rate Depreciation Report, and General Plant and Intangible Rates

ARCO Assets

6F Account	Description	Hydro Amount	
124010	Other Invoices-ARCO	$	24,269
Total Netbook Value ARCO Assets		$	24,269

Audit reviewed the August 2018 $24,269 entry that was reflected in account 124010 Other Investments, and cleared with a credit, that related to Androscoggin Reservoir Company. The $24,269 was based on 1,250 shares based on a par value of 100 shares at 10% ownership.

Conclusion regarding the reported Net Book Value of Generating Assets and Inventory

RAB-1 page 2 of 13		$718,156,425
Thermal recommended disallowances	$	(69,613)
Hydro recommended disallowance	$	(4,098)
Wyman IV recommended disallowance	$	-0-
ARCO recommended disallowance	$	-0-
Total recommended disallowance	$	(73,711)
Adjusted Net Book Value		**$718,082,714**

Sale proceeds $(196,321,399)

Audit verified the ($196,321,399) actual sales proceeds to Attachment RAB-1 Page 2 and 3a.

Sale of Thermal Assets

The 11/28/2017 Commission Order 26,078 in DE 17-124 approved the sale of the thermal generation assets to Granite Shore Power for $175 million. The 1,130 MW fossil fuel assets sold included Newington, Schiller, Merrimack, White Lake, and Lost Nation. The deal closed on January 10, 2018 with additional adjustments in May 2018.

The Newington Station is 69 acres along the Piscataqua River. The facility has a 400 MW total capacity and contains one utility boiler, two auxiliary boilers, and one emergency generator. Newington is the largest unit and burns both natural gas and oil.

The Merrimack Station is 340 acres located along the Merrimack River in Bow. The Merrimack unit has two coal fired steam units and two kerosene fueled combustion turbines for a total 482 MW.

Schiller Station is 81 acres along the Piscataqua River in Portsmouth adjacent to Newington Station. There are four-generation units for 156 MW. The units have the capability of starting up and shutting down daily as needed, except Unit 5, the biomass boiler that operates as needed.

The Lost Nation combustion turbine is 11.5 acres in Northumberland with an 18 MW capacity. The White Lake combustion turbine is half an acre in Tamworth with 22.4 MW capacity.

Sale of Hydroelectric Assets

The 11/29/2017 Commission Order 26,080 in DE 17-124 approved the sale of the hydroelectric generation assets for $83.3 million to HSE Hydro NH AC, LLC, subject to certain adjustments. The sale included all nine facilities located along the Merrimack, Androscoggin, Connecticut, and Pemigewasset Rivers that have 68.2 MW of capacity. The deal finally closed on August 26, 2018. The chart below summarizes the capacity of the nine facilities:

Name	Town	Capacity
Amoskeag	Manchester	16
Ayers Island	Bristol	8.4
Canaan	Stewartstown	1.1
Eastman Falls	Franklin	6.4
Garvins Falls	Bow	12.1
Jackman	Hillsborough	3.2
Gorham	Gorham	2.2
Hooksett	Hooksett	1.6
Smith	Berlin	17.2
Total		68.2

Sale of Wyman Assets

On 9/27/2017 Commission Order 26,060 in DE 17-105 approved the sale of the 3.1433% interest in the W.F. Wyman-Unit 4 located in Yarmouth, Maine to FPL Energy Wyman IV, LLC for $1,000,000 plus fair market value of fuel inventory (approximately 580,000). This resulted in approximately $1.6 million to reimburse Eversource for the book value of the facility and expenses of the sale and reduce stranded asset costs. The sale was conducted outside of the auction process based on feedback from auction advisor JP Morgan, as Eversource had a minority stake in the venture and will reduce stranded asset costs. The assets were sold in November 2017.

Sale of ARCO

The Company sold $500,000 worth of 1,250 Androscoggin Reservoir Company (ARCO) ownership shares associated with headwaters projects in northern New Hampshire and Maine. Under the bylaws of ARCO, if any owner is going to sell its shares the other owners have the right of first refusal. Once the bids were received, Eversource was required by the auction process to offer its shares to other existing ARCO owners. All the shareholders exercised their rights to purchase the Company’s shares. On a net basis there is no difference in the sale proceeds, because the owners paid the same $500,000 for Eversource’s portion of the shares as Hull Street Energy would have paid under the Hydro Purchase and Sale Agreement. The shares were sold in August 26, 2018 as part of the sale to HSE Energy.

Summary of Generation Sales Proceeds to General Ledger

Audit verified the ($196,321,399) actual sales proceeds to Attachment RAB-1 Pages 2 and 3a to the following accounts listed below, as well as to the Bank of America Treasury Report.

Date	Account	Description of Journal Entry		Amount
18-Jan	142CD0	01/18 Closing Date sale to Granite Shore Power.	$	(130,640,516)
18-Jun	143GSP	Escrow released due to question of capacity ratings.	$	(3,491,811)
18-Aug	426100	Addiontal Credit as benefit to customers for escrow calculation	$	(2,938)
18-Jun	186670	Addiontal Payment to GSP for differential fuel and inventory.	$	17,323,439
		Total Thermal Assets	$	(116,811,826)

Date	Account	Description of Journal Entry		Amount
18-Aug	142CD0	08/18 Closing Sale to Hull Street.	$	(77,114,742)
18-Sep	142CD0	2nd Post Closing Transaction	$	(116,949)
		Total Hydro Assets	$	(77,231,691)

Date	Account	Description of Journal Entry		Amount
18-Aug	142CD0	Sale to White Pine	$	(142,800)
18-Aug	142CD0	Sale to Ontario	$	(142,800)
18-Aug	142CD0	Sale to Brookfield White Pines Hydro	$	(142,800)
18-Aug	142CD0	Sale to Eagle Creek Renewable Energy	$	(71,600)
		Total ARCO Assets	$	(500,000)

Date	Account	Description of Journal Entry		Amount
17-Nov	142CD0	Sale of ownership to FPL Energy	$	(1,726,321)
17-Nov	142CD0	Post closing Adj.	$	(51,560)
		Total Wyman IV Assets	$	(1,777,881)
		Total Alll Generation Assets	**$**	**(196,321,399)**

Audit further reviewed Attachment RAB-1 Page 3A that breaks out the ($196,321,399) on Line 22, Final Closing amounts, compared to the estimates included in the securitized RRB.

Thermal Assets ($116,811,827)

Section A and B on the Attachment RAB-1 Page 3A discuss the net ($13,828,689) difference between the $130,640,516 original purchase price on 1/10/2018 and the final closing amount in May 2018 of $116,811,827, due to some adjustments caused by delays, described below:

	A 1/10/18	B May 2018
Original Purchase Price	$ 175,000,000.00	$ 175,000,000.00
Closing Adjustments		
Working Capital	$ (21,076,322)	$ (38,145,913)
Delayed Closing Adjustments	$ (19,369,482)	$ (18,730,320)
Prorated Items	$ (418,930)	$ (1,311,940)
Total Purchase Price Adjustments	$ (40,864,734)	$ (58,188,173)
Closing Purchase Price	$ 134,135,266	$ 116,811,827
Amount Placed in Escrow	$ 3,494,750	
Amount Conveyed at Close	$ 130,640,516	$ 116,811,827

The working capital adjustments reflect the differences between the values of the difference in inventory fuel due to the delayed closing of 8 days in January 2018 until sale on January 10, 2018. The cause was due to a winter storm and severe cold weather. Because of this, more fuel was used at the generation plants, thus reducing the value as more coal and fuel were burned than initial estimates. Audit reviewed a spreadsheet that showed the kerosene, coal, wood, and fuel oil working capital calculations. The closing was further delayed over a settlement agreement with IS-ONE regarding capacity issues of the fossil fuel plants. Audit reviewed an ISO-NE settlement payment owed to Granite Shore Power that summed to $652,817 from Blackstart, VAR, and WRP Energy Services.

The delayed closing adjustments consist of the difference between net energy margin, ancillaries, and forward capacity revenues. The prorated items consist of transfer taxes, property taxes to be refunded to the town, and state taxes due at closing, as well as a ($1,200,000) credit for Gypsum that is a byproduct of burning coal that was sold to National Gypsum in Portsmouth. The $1.2 million represents a monthly accrual of $150k for the May-December 2017 for the final disposal liability payment.

The $3,494,750 was an escrow account placed with Fidelity National Title Insurance related to the Lost Nation securitized principal amount related to Lost Nation capacity issues. The escrow was released on June 15, 2018. There was a $2,938 credit for customers due to extra interest that calculated at 99.81% rather than 100% on the escrow account.

Based on a review of the GL, the Company booked a $(13,985,938) loss on the GL. The attachment RAB-1 Page 3a on Line 21 indicates this figure is $(13,828,689), the correct figure. This is an increase of $157,249. These charges relate to materials and supplies booked to account #154010 for which the allocation was adjusted.

Audit reviewed the sale proceeds that were booked to account 102000 in February 2018:

Date	Account	Description	Debit	Credit
Feb-18	143GSP	Other Accounts Receivable	$ 3,491,811	
Feb-18	426000	Miscellaneous Expenses	$ 2,938	
Feb-18	102000	Electric Plant Sold	$ 13,828,689	
Feb-18	186670	Deferral Account		$ 17,323,439

The adjustment on the sale of the loss was booked as follows in February 2018.

Date	Account	Description	Debit	Credit
Feb-18	421200	Loss on Disposition of Property	$ 13,985,938	
Feb-18	154010	Materials and Supplies		$ (157,249)
Feb-18	102000	Electric Plant Sold		$ (13,828,689)

The deferral loss to the regulatory asset account was booked as follows in February 2018:

Date	Account	Description of Account	Debit	Credit
Feb-18	182GDV	Regulatory Asset-Generation Divesiture	$ 13,985,938	
Feb-18	421200	Loss on Disposition of Property		$ (13,985,938)

Date	Account	Description of Account	Debit	Credit
Feb-18	174RRB	Miscellanous Current Asset-RRB	$ 13,985,938	
Feb-18	182GDV	Regulatory Asset-Generation Divestiture		$ (13,985,938)

Below demonstrates how the deferral loss was booked in February 2018.

Date	Account	Description of Account	Debit	Credit
Feb-18	182GDV	Regulatory Asset-Generation Divestiture	$ 526,974,633	
Feb-18	421200	Loss on Disposition of Property		$ 522,230,711
Feb-18	421200	Loss on Disposition of Property		$ 4,743,922

The Company recorded in February 2018 to the 182GDV account, $526,974,633 related to stranded costs. Based on the final sale result the net that was booked as of October 2019 to 182GDV is $540,960,571 in stranded cost that agrees with line 47 on attachment RAB-1 Page 2.

Hydro Assets $(77,231,691)

Audit reviewed the $(77,231,691) net sale proceeds on attachment RAB-1 Page 3a Line 21 of the filing. The sale price in January 2018 was $83 million but was not sold until August 2018 due to delays in receiving a FERC order resulting from intervention filings made by the City of Berlin. The FERC order authorized transfers of the six FERC licenses that covered 8 of the 9 hydro facilities.

Base Purchase Price	$	83,000,000
Closing Adjustments		
Section 5.15	$	(5,600,000)
Prorated Items	$	225,595
Working Capital	$	106,096
Total Purchase Price Adjustments	$	(5,268,309)
ARCO Exclusions	$	(500,000)
Amount Conveyed at Close	$	77,231,691

The $(5.6) million represents a reduction in price per section 5.15 section costs due to ISO-NE capacity issues. The issue related to potential loss or liability questions regarding non-intermittent status of Amoskeag, Eastman Falls, and Ayers Island Hydro Facilities. Other issues in the agreement include fixing the breakers at Amoskeag station, a draft tube replacement for the Hooksett station, fixed transition services with no markup, and any motor vehicle issues. Eversource and HSE Hydro signed the agreement on August 24, 2018. The final close was August 26, 2018.

The $225,595 prorated items consist of NH municipal and state property tax refunds for payment of property taxes, NH and Vermont transfer taxes, 2.5% Vermont withholding tax on gain, partial release of mortgage fees, Franklin Water District, and LCHIP surcharge fees.

The $106,096 in working capital adjustments consist of adjustments to inventory that were initially $148,677 in February 2018 from Maximo but lowered by $(42,581) to $106,096 due to lower valuation of inventory. Also, during the closing negotiations, the buyer disputed the valuation, as the closing was initially schedule for a January 2018 closing but did not close until August 2018.

The ARCO was sale of $(500,000) in Androscoggin Reservoir Company (ARCO) stock recommended by the Auction Advisor. This is discussed later in this report.

Audit reviewed the August and September 2018 journal entries recording the sale of hydro proceeds booked to account 102000. The Company debited the cash account 142CD0 for $77,231,691 and credited electric plant purchase or sold account 102000 for the same amount. This is a difference of ($500,000) that was because ARCO was booked as part of a separate transaction. This is discussed later in this report.

Date	Account	Description of Account	Debit	Credit
Aug-18	142CD0	Cash	$ 77,114,742	
Aug-18	102000	Electric Plant Sold		$ 77,114,742
Sep-18	142CD0	Cash	$ 116,949	
Sep-18	102000	Electric Plant Sold		$ 116,949
		Total Closing Price	**$ 77,231,691**	**$ 77,231,691**

ARCO Assets $(500,000)

Audit reviewed the $(500,000) in sales proceeds from the Hull Street Energy purchase of the hydro assets in August 2018 to attachment RAB-1 Page 3A. The Company sold $500,000 in Androscoggin Reservoir Company (ARCO) 1,250 ownership shares associated with headwaters projects in northern New Hampshire and Maine. Audit was provided with the purchase agreements for the four parties that bought the stock. Three companies, Brookfield White Pine Hydro, Ontario, and White Pine purchased $142,800 worth of stock each. One company, Eagle Creek Renewable Energy, purchased $71,600 in stock.

Audit reviewed the journal entries that recorded the $500k sale of the assets.

The entries from September 2018 debited the cash account 142CDO for $500k and credited accounts 421010 Gain on Disposition of property for $475,731 and account 124010 Other Investments for $24,269. The 124010 account represents the book value of Androscoggin Reservoir Company book value.

Date	Account	Description of Account	Debit	Credit
Sep-18	142CD0	Cash	$500,000	
Sep-18	421140	Gain on Disposition of Property		$475,731
Sep-18	124010	Other Investments		$ 24,269

Audit reviewed the September 2018 deferral on Gain to regulatory liability journal entry. The Company debited account for $475,731 account 421140 Gain on Disp. Of Property and credited the 254GDV Regulatory Liability account for the same amount.

Date	Account	Description of Account	Debit	Credit
Sep-18	421140	Gain on Disposition of Property	$475,731	
Sep-18	254GDV	Regulatory Liability		$475,731

Audit reviewed the transfer of the Regulatory Liability to Stranded Costs Reg. Asset. The Company debited the Regulatory Liability account 254GDV for $475,731 and credited account 174RRB RRB Regulatory Asset account for the same amount.

Date	Account	Description of Account	Debit	Credit
Sep-18	254GDV	Regulatory Liability	$475,731	
Sep-18	174RRB	Miscellanous Current Asset-RRB		$475,731

Wyman IV Assets $(1,777,881)

Audit reviewed attachment RAB-1 Page 3A that shows the $(1,777,881) on Line 21 of the filing. The assets sold in November 2017 represented PSNH's 3.1433% ownership interest in Wyman Unit 4 in a Yarmouth Maine, a generation facility jointly-owned by PSNH, FPL Energy, and others. The auction advisor, JP Morgan Securities, recommended selling the assets.

The filing schedule breaks out the charges as follows:

Original Purchase Price	$	1,000,000.00
Closing Adjustments		
Working Capital	$	676,505
Prorated Items	$	101,376
Total Purchase Price Adjustments	$	777,881
Total Closing Amount	$	1,777,881

The asset sale represented $1,000,000 that consisted of real property and property plant and equipment. The $676,505 working capital adjustment is based on 3.1433% ownership of $21,522,137 of fuel inventory as of November 1, 2017. The prorated items are based on a $104,876 October 2017 Settlement Agreement that based on the 3.1433% ownership in the Company. The net $104,876 is based on the November 1, 2017 Settlement Amount of $121,496 less a net payment invoice credit of ($16,621) related to the joint ownership net capacity revenue and processing fee. There was also a ($3,500) real estate withholding tax credit from Maine Transfer Tax.

Audit reviewed a January 5, 2018 journal entry that recorded the sale of the Wyman ownership interest (for month-end December 2017). The Company debited and credited the following accounts:

Account	Description	Debit	Credit
142CD0	Undistributed Cash Deposits	$ 1,777,881	
151030	Fuel Stock - No 6 Oil		$ (596,807)
102000	Electric Plant Sold		$ (331,490)
143490	10/17 Receivable		$ (104,876)
102000	Electric Plant Sold		$ (744,708)
	Total Journal Entry	$ 1,777,881	$ (1,777,881)

Scrubber deferral $98,213,258 and Reduction for deferred equity return per settlement $(25,000,000)

Attachment RAB-1, page 4 of 13, the total included in the RRB calculated

6F-182P30	ES Regulatory Asset	$ 98,213,258
6F-182P40	Forgone Equity per DE 14-238	$(25,000,000)
	Total Scrubber Deferrals	$ 73,213,258

Amortization of Scrubber related expenses began in January 2018 based on a review of the timeline and reconciliation of the costs included in the Energy Service rate filings. Amortization took place after divestiture and prior to securitization (January 2018 through April 2018), calculated to be spread over seven years. Overall, Audit noted monthly line items beginning in September 2011 (in $000s) for:

		Operations and Maintenance (O&M)						Return	Return	Total
				Avoided		Property	Total	on Rate	on	ANNUAL
	Revenue	Non-fuel	Fuel	SO2	Depreciation	Tax	O&M	Base	Deferral	Under/(Over)
9/11-12/11	$ -	$ 600	$ 1,494	$ (725)	$ 3,100	$ 51	$ 4,520	$ 8,581	$ 109	$ 13,210
1/12 - 12/12	$ (31,263)	$ 2,430	$ 6,661	$ (313)	$ 15,077	$ 267	$ 24,122	$ 41,715	$ 2,342	$ 36,916
1/13 - 12/13	$ (36,972)	$ 2,741	$ 6,486	$ (2,350)	$ 15,546	$ 215	$ 22,638	$ 40,107	$ 4,048	$ 29,821
1/14 - 12/14	$ (37,230)	$ 2,339	$ 9,341	$ (2,609)	$ 15,529	$ 215	$ 24,815	$ 31,957	$ 5,537	$ 25,079
1/15 - 12/15	$ (38,896)	$ 2,005	$ 7,049	$ (1,908)	$ 15,528	$ 215	$ 22,889	$ 28,412	$ 6,406	$ 18,811
1/16 - 12/16	$ (58,861)	$ 1,621	$ 4,698	$ (491)	$ 15,566	$ 215	$ 21,609	$ 26,285	$ -	$ (10,967)
1/17 - 12/17	$ (55,705)	$ 1,527	$ 4,763	$ (215)	$ 15,573	$ 215	$ 21,863	$ 25,054	$ -	$ (8,788)
1/18 - 04/18	$ -	monthly amortization until securitization						$ -	$ -	$ (5,871)
							TOTAL Cumulative Under/(Over)			**$ 98,211**

The variance between the summary above, $98,211,000 and the reported $98,213,258 is due to rounding. The reported costs, including the returns, and the revenues are included within the annual Energy Service dockets. Audit requested and was provided with the monthly balance sheet balances for the Generation segment 6F 182P30, Energy Service account from 12/2011 through 12/2017. Because the Scrubber costs are a portion of the Energy Service filings and thus, account, the balances were reviewed for reasonableness. Throughout the period, the rolling Scrubber deferral balance was less than the overall balance within the account. Audit requested a reconciliation of the 3/2018 Energy Service filing to the general ledger. The following was provided:

	Reconciliation of March 2018 ES Deferred Balance		
	Book vs. Quarterly Reconciliation Filing (1,000)		
			YTD thru March 2018
	Balance per Books, FERC Account 182P30		$ 128,312
1	Adjust to account for timing of REC Costs for January Resale booked in April 2018		$ 1,599
2	Adjust to account for timing of REC Costs for January Resale booked in June 2018		$ 368
3	Inclusion of Approved Lead Lag for 2017, not on books until approved		$ 262
4	Adjust to include pension credit correction for Jan - Jun 2018 booked in June 2018		$ (1,099)
5	Adjust to remove duplicate booking of NEIL Refund proceeds		$ 307
	Unidentified Variance		$ 1
6	2017 NWPP REC Revenue in Filing	$(5,886)	
7	Less: 2017 NWPP REC Revenue in G/L (through March 31, 2018)	$(4,035)	
	2017 NWPP REC Revenue in ES filing but not yet in G/L		$ (1,851)
8	Adjusted Balance Reconciled to ES Rate Filing		$ 127,898

1. Journal Entry 300761 - sale booked in April 2018 for January transaction, included in ELM-3, Page 12, Line 6, Feb 2018

2. Journal Entry 305093 - adjustment to January sale booked in June 2018, included in ELM-3, Page 12, Line 6, Jan 2018

3. Docket DE 18-073, Order 26,237 dated April 25,2019 - see below
   Change in Return on Rate Base resulting from Working Capital Allowance:
   DE 16-822 2017 Q4 quarterly filing Page 11, Line 12 - used 45/365 working capital allowance $68,512
   DE 18-073 CJG-4, Page 11, Line 12 - used lead/lag study to determine working capital allowance $68,774
   $ 262
4. January through March belonged in ES; April through June in SCRC. Journal entries 307238 and 313037, Excluded from DE 19-080, ELM-3 Page 14, Line 2, $367K/mo. in Jan-Mar 2018
5. Duplicate credit of $153,584 reversed in DE 19-080, ELM-3, Page 14, Line 2 in Mar 2018. Actual credit included in ELM-3, Page 10, Line 5
6. DE 18-073 CJG-4, Page 10, Line 4 and 5
7. 456020/45601X, excluding non-NWPP transactions
8. DE 19-080, ELM-3, Page 8, Line 10, Total column

From the PUC Audit Report of costs related to the Wet Flue Gas Desulphurization unit (Scrubber, docket DE 11-250) dated 8/21/2012, for costs through 3/31/2012: "*the Director-Generation declared the Scrubber to be in-service on 9/27/11*, [and changed the work order] f*rom one large active Work Order to the creation of four smaller continuation Work Orders… necessary to complete the remaining potions of the Project. Therefore, costs in Work Order #CO4MK220 were reduced to $341,959,498 and that amount was deemed in-service. The total however, includes the costs of removal* *which have not been analyzed by Plant Accounting, in the amount of $732,335. Net new equipment in account 106.01, Completed not Classified, was $341,227,164 as of 3/31/12.*

That audit report recommended an adjustment, reducing the filed total costs by $441,713, and an additional reduction of $58,483 of calculated AFUDC relating to inventory.

On August 23, 2013 PUC Audit issued a final audit report related to the Merrimack Station Clean Air Project (Scrubber), in DE 11-250, for costs incurred through December 2012, with an updated general ledger total as of 3/31/2013:

		12/31/2012 General Ledger		3/31/2013 General Ledger	
C04MK220	Main Scrubber-total capital	$	344,973,645	$	344,209,274
C04MK220	Main Scrubber-cost of removal	$	775,065	$	775,065
		$	345,748,710	$	344,984,339
C04MK222	Electric Power-capital	$	16,930,556	$	16,930,556
C04MK222	Electric Power-cost of removal	$	26,418	$	26,418
		$	16,956,974	$	16,956,974
C04MK21	E Warehouse	$	1,074,906	$	1,074,906
C04MK225	The Meeting Place	$	2,014,714	$	2,014,714
C04MK226	Secondary Water	$	27,866,656	$	27,950,618
C04MK227	Scrubber Equipment	$	12,921,885	$	12,921,885
C04MK228	EMARS	$	2,307,437	$	2,340,401
C04MK229	Truck Wash	$	2,409,873	$	2,430,588
C04MK22A	Truck Scale	$	964,150	$	964,150
C04MK22B	Soda Ash	$	2,688,135	$	3,342,529
C04MK22C	SWWT 2nd Effect	$	3,866,534	$	3,847,178
	TOTAL CAPITAL	$	418,018,491	$	418,026,799
	TOTAL COST of REMOVAL	$	801,483	$	801,483
	TOTAL	$	418,819,974	$	418,828,282
	LESS Cost of Removal	$	(801,483)	$	(801,483)
	LESS Recommended Adjustment	$	(441,713)	$	(441,713)
	LESS AFUDC for Spare Booster Fan	$	(58,483)	$	(58,483)
	ADJUSTED CAPITAL for CAP	**$**	**417,518,295**	**$**	**417,526,603**
	Less The Meeting Place			$	(2,014,714)
	Approved by Order 25,920			**$**	**415,511,889.00**
	Foregone equity per Order 25,920			$	(25,000,000.00)
	Authorized for depreciation over 7 years beginning 7/1/2016			$	390,511,889.00

A total adjusted cost of $415,511,889 was approved for recovery via Order 25,920 (pages 25-26) on July 1, 2016. Audit verified that the rolling deferral balance of plant in service at 3/31/2013 $393,548,000 plus accumulated depreciation from

September 2011 through March 2013 sum to the approved $415,511,889. The Order authorizes the recovery of the adjusted cost over seven years. The foregone equity to which the Company agreed, $25,000,000 of the total cost, was verified to the following journal entry, effective May 2018:

6F.211000.182P40 Contra MK Scrubber Incl in 182P30	$25,000,000	
6F.211000.182P30 ES Regulatory Asset		$(25,000,000)

Because the carrying charges related to the Scrubber began in 2011, the costs upon which the Return on Rate Base should have been reduced by $25,000,000 effective July 1, 2016. The entry was not done until May 2018, thus overstating both the calculated RoR and Return on Deferral from 7/1/2016 through 5/2018. A recalculation of the overstatement was not been performed due to the Deloitte calculations' use of a tax adjusted rate rather than the straight approved rate of return 9.81

Regarding the roll-forward of the Energy Service dockets and related Scrubber data:

Revenue was verified to a download of monthly sales data from April 2012 through December 2017. Reported sales were multiplied by the Scrubber temporary rate of 0.98 cents per kWh from April 2012 through January 2016, when the reported rate reflects an increase to 1.72 cents per kWh, authorized by Order 25,854 in docket DE 11-250. In response to a request by PUC Audit, the Company acknowledged that the energy service rate approved in docket DE 17-113 then DE 17-150 for the first three months of 2018 included the Scrubber rate of 1.72 cents per kWh, outlined below.

	January 2018	**February 2018**	**March 2018**
Energy Service Sales (KWH)	349,275,951	295,921,186	272,708,628
New Unbilled Sales (KWH)	187,334,814	149,550,398	153,889,218
Prior month reversal	$ (191,526,652)	$ (187,334,814)	$ (149,550,398)
Net ES Unbilled	$ (4,191,838)	$ (37,784,416)	$ 4,338,820
Net ES Sales (KWH)	345,084,113	258,136,770	277,047,448
Scrubber Rate (cents/kWh)	1.72	1.72	1.72
Scrubber Revenue	$ 5,935,447	$ 4,439,952	$ 4,765,216
Total Scrubber revenue January - March 2018			**$ 15,140,615**

As a result of the above, the 2018 first quarter revenue was not included in the calculated $98 million dollar deferral, therefore overstating the deferral by $15,140,615.
Audit Issue #2

O&M consists of Non-fuel expenses, Fuel expenses, Avoided SO2 costs, depreciation, and the estimated property tax not included in the property tax exemption from the state-wide $6.60 utility tax, identified within docket DE 07-096, Order 24,814 issued on 12/28/2007. Part of that Order states: "*PSNH noted that the generation revenue requirements include non-fuel costs of generation, including non-fuel operation* *and maintenance costs, allocated administrative and general costs, depreciation, property taxes and payroll taxes, and a return on PSNH's net investment in its generation assets…PSNH proposed to add four additional items to the ES rate calculations as follows: (1) amounts paid by PSNH to buyout the McLane Dam hydroelectric project in Milford, New Hampshire in 1997,' Clean Air Act deferred revenue associated with emissions reduction equipment previously installed at PSNH's generating plants, and SO2 allowance auction proceeds reserved for Conservation and Load Management (C&LM), collectively referred to as the "net obligations;" (2) $149,000 of costs incurred in connection with PSNH's involvement in the development of mercury mitigation legislation, (3) an increase from 9.62 percent to 9.99 percent for the return on equity applicable to PSNH's generation rate base, and (4) approximately $8 million of alternative compliance payments (ACPs) associated with the recently-enacted Renewable Portfolio Standard law, RSA 362-F*." (See pages 4 and 5 of the Order). The Commission approved a 9.81% return on rate base, rather than the Company proposed 9.99%.

The 2011 O&M figures, per the "*2011 Energy Service Rate Calculation-Merrimack Scrubber O&M, Depreciation and Taxes (Dollars in 000s)"* reflect estimated expenses beginning in October 2011. The Scrubber was deemed "in service" in September 2011. The 2011 O&M $4,520,xxx were "trued-up" by $8,xxx in 2012.

The 2012 through 2017 O&M costs, within the similar ES Rate Calculation spreadsheets, reflected "actual" expenses, although a detailed audit of those reported costs could not be conducted due to the time constraint, and the annual energy service dockets since 2011 have been adjudicated. Audit reviewed the workpapers used by Deloitte for their "Agreed upon Procedures" testing.

Audit noted that the balances of accounts 182P30 and 182P40 in the Generation segment 6F of the general ledger reflected the following balances at 4/30/2018:

182P30	$128,311,735.16 credited in May bringing account to $-0-
182P40	$ (3,218,597.00) debited in May

Activity in September and December 2018 resulted in account 182P40 closing 2018 with a credit balance of $(1,057,618.98). Those entries were debited to account 6F.21100.431400 Other Interest Expense, related to by Line of Business 21100, Regulatory PSNH Total Energy Service.

Line of Business 24000, Generation Other, included in the 182P30 account was credited $(73,213,258) as part of the May entry establishing the RRB deferrals. All other activity in the account was identified by Line of Business 21100, Regulatory PSNH Total Energy Service.

<u>Return on Rate Base $202,111,000</u>

As quoted above from Order 24,814, the Company was authorized to calculate a return on rate base, using the Commission approved 9.81% ROE. Workpapers used by Deloitte in the Agreed upon Procedures included calculations of plant net of accumulated depreciation, working capital calculated at 45 days of O&M, and the calculated return.

Beginning in 2013, through 2017, the annualized return rate used was in excess of 11%, the calculated "tax-adjusted return". (Deloitte 4.0- 98.2m scrubber cost support.) Further, the return was calculated on the full Commission approved cost, without deducting for the foregone equity of $25,000,000 required by Order #25,920 7/1/2016. The return on rate base was recalculated by Audit to be $177,960,000, or $24,151,000 less than the filing figure. **Audit Issue #2**

Return on Deferral $18,441,647

Within the Deloitte workpapers, Audit again noted the tax adjusted rate of return from 2011 through 2015, in excess of 11%. (Calculation of the return on the deferral ceased when the temporary Scrubber recovery rate went into effect 1/1/2016) Each monthly calculation included a sum of the operations and maintenance items included in the grid above, including the calculated return on rate base, net of revenue. The calculation was then made on the average cumulative net (over)/under less the calculated accumulated deferred income tax. The deferred return was then based on the prime rate of 3.25% or .2708% monthly. Audit eliminated the spreadsheet deductions for ADIT, and adjusted the rates of return as discussed above. The recalculated return on the deferral was computed by Audit to be $9,122,000 vs. the $18,441,647 included in the filing, or a reduction of $9,319,647. **Audit Issue** #2

Scrubber Deferral and Foregone Equity **Conclusion**:

Attachment RAB-1, page 4 of 13, the total included in the RRB calculated

6F-182P30	ES Regulatory Asset	$ 98,213,258
6F-182P40	Forgone Equity per DE 14-238	$(25,000,000)
Total Scrubber Deferrals as filed		$ 73,213,258

Audit recalculated the net rolling balance using the 9.81% approved return, deducting the $25,000,000 in July 2016, eliminating calculated accumulated deferred income taxes, and including the 2018 revenue of $(15,140,615) to be **$49,600,000**, a reduction of $48,613,258 from the $98,213,258:

		Operations and Maintenance (O&M)						Return	Return	Total
				Avoided		Property	Total	on Rate	on	ANNUAL
	Revenue	Non-fuel	Fuel	SO2	Depreciation	Tax	O&M	Base	Deferral	Under/(Over)
9/11-12/11	$ -	$ 600	$ 1,494	$ (725)	$ 3,100	$ 51	$ 4,520	$ 7,889	$ 54	$ 12,463
1/12 - 12/12	$(31,263)	$ 2,430	$ 6,661	$ (313)	$ 15,077	$ 267	$24,122	$ 37,440	$ 1,158	$ 31,457
1/13 - 12/13	$(36,972)	$ 2,741	$ 6,486	$(2,350)	$ 15,546	$ 215	$22,638	$ 34,908	$ 1,958	$ 22,532
1/14 - 12/14	$(37,230)	$ 2,339	$ 9,341	$(2,609)	$ 15,529	$ 215	$24,815	$ 28,660	$ 2,763	$ 19,008
1/15 - 12/15	$(38,896)	$ 2,005	$ 7,049	$(1,908)	$ 15,528	$ 215	$22,889	$ 25,399	$ 3,189	$ 12,581
1/16 - 12/16	$(58,861)	$ 1,621	$ 4,698	$ (491)	$ 15,566	$ 215	$21,609	$ 22,090	$ -	$ (15,162)
1/17 - 12/17	$(55,705)	$ 1,527	$ 4,763	$ (215)	$ 15,573	$ 215	$21,863	$ 21,574	$ -	$ (12,268)
1/18 - 04/18	$(15,140)	monthly amortization until securitization					$ (5,871)	$ -	$ -	$ (21,011)
								177,960	9,122	**49,600**

Regulatory assets and liabilities $44,071,225

Attachment RAB-1, page 2 of 13 shows the total regulatory assets and liabilities to be $44,071,225. Page 5 of 13 of the same attachment shows the total broken down between regulatory assets and regulatory liabilities noted as follows:

6F Account	Description		Balance as of 10/31/2019
134AB0	Special Deposits	$	218,612
181CV0	PSNH 4.5% 2009 SerP Due12-2019-E		125,714
181NF0	PSNH 6.00% 2008 SerO Due05-2018-E		(1)
181NR0	PSNH 3.2% 2011 SerR Due09-2021-E		195,101
181NS0	PSNH 4.05% 2011 SerQ Due06-2021-E		114,384
181P40	PSNH 5.60% 2005 SerM Due10-2035-E		109,975
181QA0	PSNH 2001 AuctSerAPCRB Due05-2021-E		114,133
181SF0	PSNH 3.5% 2013 SerS Due11-2023-E		170,101
182DK0	FASB 109 Regulatory Asset		9,475,201
182GDV	State NOL Unavailable ($115M)		1,405,972
182302	Regulatory Asset - ARO		235,275
182GDV (182302)	Regulatory Asset - ARO		13,941,762
1823H0	Other Reg Assets FAS158 - Pensions		39,182,100
1823K0	Other Reg Assets FAS158 - OPEB		2,372,045
1823M0	Other Reg Assets - Medvantage APBO		(56,620)
1823Z0	Other Reg Asset-Non-SERP Cumultv Adj		39,688
186AX0	Real Estate Tranactions		2,181
186RV0	Revolving Credit Line-PPD Deferral		138,372
189ND0	Unamortized Loss - PSNH Series D PCRB		123,279
189NE0	Unamortized Loss - PSNH Series E PCRB		71,814
189PA0	Unamortized Loss - PSNH 1991 PCB Series A		181,544
189PC0	Unamortized Loss - PSNH 1991 PCB Series C		574,286
189QB0	Unamortized Loss - PSNH 2001 PCB Series B		849,219
	Total Regulatory Assets	$	69,584,135
225SF0	225 F1 (Unamortized Premium on Long-Term Deb	$	(493,910)
226***	Less Unamortized Premiums and Discounts, Net		218,931
230010	Asset Retirement Obligations - ARO		(1,464,918)
230010/182GDV	Asset Retirement Obligations - ARO		(20,074,998)
254DK0	FASB 109 Regulatory Liability		(3,617,812)
253210	PSNH Tax Lease		(80,063)
254200	Nox Credit Sale		(140)
	Total Regulatory Liabilities	$	(25,512,910)
	Total Regulatory Assets and Liabilities	$	44,071,225

General ledger <u>Account 134 – Other Special Deposits</u> had an account balance of $218,612, as noted in the filing. Documentation provided shows, "*This account is used* *to record cash deposits to new counterparties. The credit department received cash from various counterparties as a result of adequate assurance calculations per our contracts".*

Documentation also noted the deposits are for two contracts to purchase PSNH Renewable Energy Certificates. The account balance of $218,612 represents the deposits paid to each company and interest accrued. The documentation notes that the interest calculation stopped on January 9, 2018, the date of the sale.

Audit reviewed the journal entries recorded in the general ledger. One interest entry of $77 was booked in January 2018 and in September 2018 the account was credited $218,612.

The total for general ledger <u>Account 181 – Unamortized Debt Expenses</u> is $829,407 as of May 1, 2018. Eversource provided Excel spreadsheets for each of the seven bonds. The spreadsheets provided the original bond issuance amount including any underwriting and other fees incurred. The spreadsheet shows the monthly amortization from inception to fully amortized. Spreadsheets for six of the bonds show the beginning monthly balance, the amortization amount and the monthly ending balance. The ending balance is then allocated to Distribution, Transmission, Generation and occasionally Regulatory based on the Intra-Company Capital distribution rates.

The spreadsheet of the seventh bond presents the amortization in a different manner. This bond, 2013 Series S, shows the monthly beginning balance plus any expenses incurred. The monthly amortization amount is broken down among segments: Distribution, Transmission, and Generation, rather than as a lump sum. The beginning balance plus expenses are allocated to the segments and then the segment's amortization amount is deducted, resulting in the ending balance.

Audit recalculated the beginning and ending balances for each bond. The May balance as noted in attachment RAB-1, page 5 of 13, and noted above are accurate, except for the 2013 bond. The amortization spreadsheet and Audit calculation show the May 1 balance as $170,734; however, the filings shows the balance as $170,101. The difference of $633 is immaterial.

Eversource provided supporting documentation for all of the underwriting fees for each bond.

Audit recommends the full **$829,407** be removed from the filing. Audit was previously informed that debt is incurred at the total PSNH level and is therefore not specific to generations. Following the sale of the generation plants, the total bond outstanding should be reallocated to distribution, transmission and regulatory. **Audit Issue #3**

Audit reviewed the general ledger activity for all of the 181 accounts noted above. Transactions include the amortization for the months of January through April and a credit in May for the balance in the account. No exceptions were noted.

General Ledger Account 182.3 – Other Regulatory Assets, total as shown in the filing is $66,595,422. The largest portion of the total is from account 1823H0 – Other Reg Assets FAS158-Pensions, totaling $39,182,100. Eversource provided several Excel spreadsheets to support the figure. A spreadsheet provided from the Actuarial shows the 3/31/208 balance for PSNH Generation as $36,827,303.

A reconciliation shows the following activity for account 1823H0:

36,827,303.00	3.31.19 actuarial spreadsheet (Verified by Audit)
(182,930.00)	Apr Expense (Verified by Audit)
(42,683.67)	7 Days of Expense in May (Verified by Audit)
36,601,689.33	
2,580,410.27	Mid Year Adjustment (Verified by Audit)
39,182,099.60	

The general ledger summary for 2018 shows the ending balance for March 31 to be $36,827,304.

Audit received a copy of the final 2018 actuarial report. The total asset amount of all companies' pension plans, per an Eversource spreadsheet, was verified to the report.

The remaining balance of $27,413,322 is comprised of the following accounts:

182DK0	FASB 109 Regulatory Asset	$ 9,475,201
182GDV	State NOL Unavailable ($115M)	$ 1,405,972
182302	Regulatory Asset – ARO	$ 235,275
182GDV(182302)	Regulatory Asset – ARO	$13,941,762
1823K0	Other Reg Assets FAS158 – OPEB	$ 2,372,045
1823M0	Other Reg Assets – Medvantage APBO	$ (56,620)
1823Z0	Other Reg Assets – Non-SERP Cumultv Adj	$ 39,688
		$27,413,322

Audit requested supporting documentation on the account balance and was provided the April balance sheet showing the account totals. Audit verified the balances to the summary GL without exception. A securitization cost summary provided early in the audit was used to track additional journal entries included in the totals noted in the chat above. Eversource also provided an additional spreadsheet showing all the activity in the accounts noted above that sum to the balance noted.

Audit was able to verify the balances, as noted in the filing, to the general ledger summary and activity without exception. Audit is unable to verify the detail and calculations of the balances.

Account 186 – Miscellaneous Deferred Debits total of $140,552 was verified to two general ledger accounts. Account 186AX0, Real Estate Transactions, shows activity for the sale of land at Newington Station totaling $2,181. Account 186RV0, Revolving Credit Line-PPD Deferral showed an April month end balance of $138,372.

As noted above in Account 181, the ending balance should be reallocated to transmission and distribution as debt is incurred at the PSNH level. Audit recommends removing **$138,372** from the filing. **Audit Issue #3**

General ledger Account 189 – Unamortized Loss on Reacquired Debt total in the filing is $1,800,142. Eversource provided a spreadsheet with individual tabs for each bond reacquired. Eversource provided Audit with the April 2018 balance sheet which shows the total balance of account 189 as $1,800,142.

The spreadsheet provided the beginning account balance, the monthly amortization and the ending balance for the month. The ending balance is then allocated to Distribution, Transmission, Regulatory, and Generation per the Intra-Company Capital distribution rates. Audit verified the ending balance as of May 1, as noted in the filing, for all of the 189 accounts.

Audit verified the 189 accounts noted above to the general ledger. Activity in the accounts contained monthly amortization for January through April and a credit in May for the remaining balance.

Audit recommends removing the full **$1,800,142** from the filing as debt occurs at the PSNH level. The balance at the time of the generation assets sale should be reallocated to transmission and distribution. **Audit Issue #3**

General ledger Account 225 – Unamortized Premium on Long-Term Debt had a filing total of $(493,910). Audit was able to verify the April month end balance of account 225SF0 to the filing. Account activity shows the January through April monthly activity shows the amortization of $7,483 and the transfer in May of $493,910.

Due to debt occurring at the PSNH level, Audit recommends the full **$(493,910)** be removed from the filing. Following the sale of the generation assets, the remaining balance should be reallocated to transmission and distribution. **Audit Issue #3**

General Ledger Account 226 – Unamortized Discount on Long-Term Debt – Debit shows a filing total of $218,931. Audit was able to verify the April general ledger balances of four accounts to the filing total as noted below:

226CV0	$ 61,875
226NR0	$103,024
226NS0	$ 32,105
226P40	$ 21,927
	$218,931

Audit recommends removing the full **$218,931** from the filing as debt occurs at the PSNH level and is not specific to generation. **Audit Issue #3**

General ledger Account 230 – Asset Retirement Obligations showed a filing amount of $(21,539,916).

The filing amount is comprised of the following two general ledger accounts:

230010	Asset Retirement Obligations – ARO	$ (1,464,918)
230010/182GDV	Asset Retirement Obligations – ARO	$(20,074,998)
		$(21,539,916)

Audit requested additional information to verify this amount and was provided with the April balance sheet and a spreadsheet of the account activity for 230010. Audit was able to verity the amount noted in the filing, as stated above, to the general ledger for account 230010.

The $(20,074,998) balance in account 230010/182GDV was from a transfer of $13,929,296 from account 182302 and $6,145,702 from account 182GDV to reversal ARO liability for Thermal.

Audit was able to verity the filing totals to the general ledger activity without exception; however, Audit was unable to determine if the figures and the calculations behind the figures are accurate.

General ledger Account 253 – Other Deferred Credits, filing total is $(80,063). Account 253210 is titled PSNH Tax Lease and *"The balance in this account will reflect the unamortized proceeds from the Garvins Falls sale leaseback transaction over a 38 year amortization period."* Documentation from Docket DR 82-333 was provided to Audit. Exhibit 1 is titled "Accounting for the Garvins Falls Tax Benefit Sale". The document notes that PSNH in in a favorable tax position and due to them not being able to utilize tax benefits in the near future they determined that it would be an advantage to the Company to sell the investment tax credit, the energy credit and tax depreciation on the Garvins Falls renovation. Eversource received $1,921,500 for the sale of the tax credits.

Page 2 of 5 from Exhibit B in Docket DR 82-333, shows that the $1,921,500 is amortized over 38 years. 1982 was a partial year since the transaction took place at the end of March and 2020 is also a partial year as it recognizes the first three months to complete the full 38 years. The full year amortization total per the Exhibit was $50,566.

Audit recalculated the tax lease ending balance amount of $(80,063) using the following:

1982 partial year amortization	$ 37,924
1983-2017 full year amortization $50,566*35 years	$ 1,769,810
2018 partial year amortization $4,214*8 months	$ 33,712
	$ 1,841,446
Less: total sale proceeds	$(1,921,500)
August 31, 2018 Ending Balance	$ (80,054)

The difference between Audit's recalculation and account 253210 balance of $(80,063) is an immaterial $9 most likely due to rounding. No exceptions were noted with the calculation of the August 31, 2018 ending balance.

2018 the general ledger activity shows monthly amortization entries in the amount of $4,214 for January through August. It also shows the debit entry of $80,063

General ledger Account 254 – Other Regulatory Liabilities showed a filing total of $(3,617,952). The total is the sum of two general ledger accounts; 254DK0 $(3,617,812) and 254200 $(140). Due to the immateriality of account 254200, Audit did not review the detail.

Audit requested supporting documentation for the balance of account 254DK0 and received a copy of the April balance sheet and a spreadsheet of account activity. Audit was able to verify the filing amount of $(3,617,952) to the general ledger activity.

JP Morgan auction advisor fees $3,125,000

Attachment RAB-1, page 6 of 13, reflects total auction advisor fees of $3,125,000.

On July 1, 2016, Commission Order 25,920 approved the Settlement Agreement regarding investigation of scrubber costs and cost recovery as well as the determination regarding generation assets in DE 11-250 and DE 14-238. The 2015 Settlement Agreement stipulated an auction advisor be hired to facilitate negotiating the best purchase price for the sale of the generation assets. JP Morgan Securities ("JPMorgan") was selected as the auction advisor. The Governor and Executive Council approved the contract in September 7, 2016.

The bid for proposal received 12 bidders with JP Morgan Securities L.L.C. receiving the highest score. The terms of the contract were structured so JP Morgan would be paid a transaction value of 1.5% if the completed sale of the generation assets exceeded $200 million, or a fee of $3 million if the sale was equal to or below $200 million. Based on the actual sale value being below $200 million, net of closing price adjustments, JP Morgan received the $3 million transaction fee. JPMorgan also was authorized a cap of $125,000 in travel and legal expenses. The breakout per the contract was $75k for travel/document production and $50k for legal. The final contract price with JP Morgan Securities was $3,125,000. Eversource was responsible for paying JPMorgan directly regarding any marketing expenses. Invoices from JP Morgan were sent to the Public Utilities Commission for review, approval, and subsequent submission to Eversource for payment.

Audit reviewed two debit entries that were booked to account #186670, Regulatory Commission Expense, in the Generation segment of the general ledger, for $2,000,000 in January 2018 and $1,124,999 in August 2018. The offsetting credits were booked to the Accounts Payable 232010 account. Audit reviewed two invoices for the

$3,125,000 JP Morgan Auction. The first invoice from January 2018 was for the $2 million transaction fee associated with the sale of the fossil fuel assets. The second invoice from August 2018 was $1,124,999 of which one million dollars was related to the transaction fee for the sale of the hydro assets. The remaining $124,999 charges consisted of travel, production, business meals, IT, market data, advertising, legal fees, and car fees. The $3,125,000 booked to the general ledger and the invoices reviewed agree with the amount on Attachment RAB 1-Page 6.

Audit reviewed these expenses on a spreadsheet but was not able to review the expenses to the actual invoice level detail or travel itinerary. Based on a review of the spreadsheet, some of the travel expenses are above the federal General Services Administration (GSA) per diem allowable limits for lodging and meals in 2017. The Company spent above the meal per diem at the Bedford Village Inn, Legal Seafood, Granite Restaurant, Group Campo Enoteca, and Moulinos of Westchester. Audit notes the charges are excessive but were allowed under the signed contract with JPMorgan that included a capped $125k in travel/legal expenses.

JPMorgan stayed at the Bedford Village Inn, Embassy Suites, Radisson Hotel, and Hilton Garden that were above the per diem rates authorized by GSA for lodging and accommodation. Audit notes the charges are excessive but were allowed under the signed contract with JPMorgan that included a capped $125k in travel/legal expenses.

JPMorgan spent money using All Star Limousine Service driving around New York City, Connecticut, Massachusetts, and New Hampshire when a rental car would have been less expensive for transportation. Based on a review of the All Star Limousine webpage All Star offers travel using Lincoln vehicles as well as other services such as being chauffeured in a Rolls Royce. Audit notes the charges are excessive but were allowed under the signed contract with JPMorgan that included a capped $125k in travel/legal expenses.

<u>Employee separation costs $6,280,508</u>

Attachment RAB-1 page 2 of 13 shows the total employee separation costs to be $6,280,508. Page 7 of 13, from that same attachment, shows the total broken down into different segments as noted below:

Description		Balance as of 10/31/2019
Severance	$	6,053,221
COBRA Medical Lump Sum		174,287
Outplacement		53,000
Total Employee Separation Costs	$	6,280,508

Severance $6,053,221

The "Memorandum of Agreement Extending Current CBA upon Divestiture by PSHN of any Generating Asset" was signed on May 20, 2015 by the Company and IBEW Local 1837 Utility Group. As part of Exhibit A of the MOA, Section IV. Severance plan, it notes the following:

"Severance Pay: Employees with between one (1) year and twenty six (26) years of service will received fifty-two (52) weeks of pay. Employees with more than twenty-six (26) years of service will receive an additional one (1) week of pay for every additional six (6) months of services (calculated to the nearest six (6) month period)."

Eversource provided a spreadsheet noting the employee name and total amount of severance paid. Audit was able to verify the dollar values of the severance paid amounts to general ledger account 186670 without exception.

An additional spreadsheet detailing the calculation of the severance amount was also provided. The spreadsheet showed the employees name, hire date, years of service, base severance weeks, and additional weeks for services of greater than twenty-six years. Separate spreadsheet tabs were provided for represented and non-represented employees.

Audit verified the total weeks of severance paid for all employees. For represented employees, Audit verified the hourly rate used, based on the employee's title, to the Union Contract. Audit was unable to verify the correct hourly rate for two hourly employees and requested additional information. Eversource provided additional documentation which showed the correct hourly rate was used.

Audit also selected fourteen non-represented employees and requested additional support to verify the hourly rate or salary amounts used to calculate severance were correct. Eversource provided screen shots from the HR system showing the correct amounts were used to calculate non-represented employees severance payments.

No exceptions were noted with the calculation of severance payments.

COBRA Medical $174,287

Exhibit A, Section IV of the 2015 MOA states that severed employees can receive, *"Medical benefits at the Company's expense (excluding employee's contributions) for a period based on number of weeks equal to severance pay with a maximum of one (1) year".*

Fifteen severed employees received COBRA medical lump sum payments totaling $174,287. Eversource noted the following regarding the medical lump sum payments:

"Some employees that were not going to the buyer received a lump sum payable to the employee in lieu of the COBRA subsidy because either they, or their dependent spouse was age 65, and would want to elect Medicare upon termination as opposed to COBRA."

The COBRA subsidy mentioned in Eversource's note above was the active medical employer contribution for the medical, dental and vision plan the employee had elected. The subsidy amount of $292,669 was not included in the filing as it was not part of the amount securitized.

Eversource provided the following note regarding COBRA payments.

"The COBRA subsidy is not part of the amount securitized and therefore not included in the filing. The COBRA subsidy was paid directly to our COBRA Third Party Administrator (TPA), Discovery Benefits, for those severed participants under age 65. Eversource provides the monthly subsidized COBRA amounts and the duration of the subsidy to Discovery Benefits. Subsidized participants pay their portion of the COBRA obligation to the TPA. Eversource pays the claims/admin fees for those individuals that elected COBRA and were entitled to the subsidy. Each month Discovery Benefits sends us the funds collected from COBRA participants along with a remittance report (online) that identifies who has elected COBRA coverage and has paid their subsidized amount (premium). The proceeds from Discovery are deposited into general assets and the monies received are credited against the cost elements for medical, dental, vision (whatever they elected) and by the operating company the person worked for.

For Medicare-eligible participants, the subsidy was paid to the employee as a lump-sum payment, as COBRA is not creditable coverage under Medicare."

The COBRA lump sum medical payment amounts were calculated based on the ages of the employee and their spouse (if applicable) and the 2018 active medical working rates. Payments were made based on how many months out of the twelve months the individual was 65 or older. For example, one employee was turning 65 in March; therefore, they received a special payment for 10 months at the medical net rate amount (gross rate less employee rate).

Eversource provided Audit with an Excel spreadsheet showing the 2018 health care rates and employee detail such as birthdate; medical plan; coverage, such as just employee or employee and spouse; medical costs; number of months for COBRA coverage; and the total COBRA payment amount.

Audit reviewed the spreadsheet in detail. Medical rates used, number of months COBRA coverage needed, and age of employee were all verified. Audit recalculated the payment amount and no exceptions were noted.

The medical lump sum total amount paid included $1,700 of educational reimbursement for one former employee. The 2015 MOA notes that, *"Up to $5,000 in tuition assistance for job/career related educational courses or training programs begun* *within twelve months from date of termination and concluded within thirty-six (36) months of that date".*

Audit requested supporting documentation for the education reimbursement and was provided a receipt from the college attended and documentation showing the amount was paid by the employee.

Outplacement Services $53,000

The 2015 MOA, Exhibit A, Section IV. Severance plan, notes Outplacement Assistance *"Such as the Lee Hecht Harrison workshop"* as a benefit for Union employees. Eversource noted, *"There was no formal agreement between non-represented employees and the company. The company made the decision to offer the same benefits without any formal agreement."*

A total of $53,000 was paid to Transition Solutions for transition services. Audit reviewed the six invoices in detail. Each invoice noted a description of the service provided and the names of the employees. Services provided were a two-day employee transition workshop, three months of transition services for eight employees, and six months of executive transition services for one employee. The transition services were $5,000 per employee, for every three months. The workshop was $1,500 a day. Audit verified the employee names on the invoices to the severance payouts without exception.

All of the employee's that received outplacement services were non-represented employees. Audit questions why represented employees did not receive these services and Eversource noted, *"The decision was made to offer outplacement seminars to represented employees rather than individual outplacement services. This was part of the agreement with the union".*

All six invoices were booked directly to general ledger account 186670, Regulatory Commission Expense. The $53,000 total was verified to the detail general ledger without exception.

The general ledger also showed a reclassification of outplacement services totaling $3,598.40. Audit requested additional information and received the following from Eversource:

"The ($3,598.40) is a reclass of a severance payment for an EMPLOYEE**, not an outplacement cost as was in the description on the journal.*

The EMPLOYEE *received two severance payments. One on week ending 1/27/18 for $83,574.40 and another on week ending 2/10/18 for $3,598. The EMPLOYEE was due a step increase that was not reflected in his first separation payment. The adjustment to $41.91/hr was made retroactive to the effective date of 11/2/17. The first severance was paid at a rate of $40.18/hr and then his rate was adjusted to $41.91/hr which is the basis for the additional $3,598.40 payment."*

*Please note the above quote was edited by Audit to remove the name of the employee and replaced it with the word EMPLOYEE.

Environmental liability insurance premiums $943,062

Attachment RAB-1, page 8 of 13, reflects six specific lines, each posted to the 6F Generation segment account 186670, Regulatory Commission Expense. Each was identified as:

Vendor	Description	Amount
AON Risk Services Northeast, Inc.	Pollution legal liability	$530,728
AON Risk Services Northeast, Inc.	Environmental Excess site liability	$173,336
AON Risk Services Northeast, Inc.	Refund overpayment of Excess site	$ (1,667)
AON Risk Services Northeast, Inc.	Environmental Excess site liability	$ 71,043
AON Risk Services Northeast, Inc.	Ocean/Air cargo-marine	$ 8,000
AON Risk Services Northeast, Inc.	Environmental pollution site liability	$161,621
Reported total Environmental Liability Insurance Premiums (rounded)		$943,062
Audit Recommended Adjustment		**$ (8,000)**
Audited Environmental Liability Insurance Premiums		**$935,062**

An invoice dated 1/11/2018 from AON to Eversource Energy Service Company, in the amount of $515,270 plus a 3% surplus lines tax of $15,548 sum to the $530,728. The $515,270 was also verified to the insurance binder provided to Aon Risk Services from Zurich North America. The Pollution Legal Liability policy relates to:

Lost Nation Combustion turbine in Northumberland, NH
Merrimack Station in Bow, NH
Newington Station in Newington, NH
Schiller Station in Portsmouth, NH
White Lake Combustion turbine in Tamworth, NH

Endorsement changes relating to asbestos, lead based paint, nuclear energy, self-insured retention relating to cleanup costs, loss, interruption expenses, emergency expenses, and claim expenses. The deductible for each pollution event was listed at $500,000, with a total liability limit of $10,000,000. The policy is for 10 years beginning 1/9/2018. Audit requested clarification of a reference on the binder to a 20% commission paid to Aon. The Company indicated that *"[w]hen Eversource procures insurance, we either pay a service fee to the broker or the broker earns a commission from the insurance company [from which] we are procuring insurance. When a commission is paid to the broker, it is done directly from the insurer to the broker, Eversource does not make a separate payment. The commission is normally included in the amount of the premium included on the invoice and is therefore, paid through our normal invoicing process."*

The $173,336 and related refund of $(1,667) were supported with invoices and a copy of the refund check. The actual policy premium, billed to Eversource Energy Service Company from Aon, was for the period 1/10/2018 through 1/10/2023 in the amount of $166,669, with a surplus lines tax of $6,666.76, or 4%. Emailed correspondence and an attachment to the binder/policy/endorsement reflects the surplus lines tax should have been calculated at 3% or $5,000.07. The $1,666.69 refund check was issued to Eversource Energy Service Company on 3/8/2018 from AON Risk Services, Inc. The insurance binder, provided by Enviant to Aon, for the period 1/10/2018 through 1/10/2023 reflects a per-incident limit of liability of $10,000,000 with the aggregate liability the same. The policy is the commercial and pollution, excess (CAPE).

Aon Risk Services Northeast, Inc. Environmental Excess site liability $71,043 was verified to an insurance binder issued to Aon from Zurich North American. The total premium of $68,974 for excess environmental insurance related to the fossil generating facilities identified above. The Steadfast Insurance Company issued an Excess and Surplus Lines Verification letter to Aon Risk Services. The difference between the $68,974 premium and the reported $71,043 is the 3% surplus lines fee, $2,069. The premium, as noted earlier, includes a 20% commission paid from the insurer to the broker.

An invoice to Eversource Energy from Aon Risk Services, date 1/11/2018 in the amount of $8,000 was noted. The policy term of 1/6/2018 – 1/6/2019, through the Endurance American Specialty Insurance Company, reflects a description of "new-ocean/air cargo-marine". Audit requested the insurance binder, which demonstrated that the insurance was for a 45,000 net ton coal shipment from Puerto Nuevo, Columbia to the port at the Schiller Station in Portsmouth, to arrive on or about January 6, 2018. Eversource subsequently learned that the buyer of the Schiller Station was incurring the cost of the insurance of the coal shipment. As a result, the $8,000 insurance premium will be refunded. See **Audit Issue #4.** The premium, as noted earlier, includes a 20% commission paid from the insurer to the broker.

The AON Risk Services Northeast, Inc. Environmental pollution site liability total of $161,621 was verified to a ten-year insurance binder copy relating to pollution legal liability, issued by Steadfast Insurance Company for Zurich North America. The hydroelectric generation facilities covered by the 8/23/2018 binder are:

Amoskeag Hydroelectric Station
Ayers Island Hydroelectric Station
Canaan Hydroelectric Station
Eastman Hydroelectric Station
Garvins Falls Hydroelectric Station
Gorham Hydroelectric Station
Hooksett Hydroelectric Station
Jackman Hydroelectric Station
Smith Hydroelectric Station

The premium was $156,914, with $100,000 deductible for each pollution event. The premium, plus the 3% surplus lines figure of $4,707 sum to the $161,621. The premium, as noted earlier, includes a 20% commission paid from the insurer to the broker.

Stranded administrative and general expenses $5,459,403

Attachment RAB-1, page 9 of 13, consists of:

O&M charges that would have been billed for all 2018	$ 8,448,271
Charges actually recovered via SCRC tracker 1/18 – 8/18	$ (713,243)
EESCO TSA Billed 1/2018 – 12/2018	$(2,275,625)
Net proposed for inclusion in SCRC excess of RRB	$ 5,459,403
Audit recommended exclusion	**$(5,459,403)**
Net amount recommended for inclusion in deferral	**$ -0-**

The Company posted the $5,459,403 as a closing entry for the 12/2019 calendar year via journal entry:

06.12310.174RRB Misc. Current Assets-RRB	$5,549,403	
6F.24000.186000 Amortization ES Deferral		$(5,459,403)

Audit requested clarification of the entry, as the attachment indicates that the $8,448,271 is an estimate of the Service Company costs that ***would have been billed*** to the Generation segment throughout 2018. Audit attempted to verify some of the O&M charges to the generation general ledger, but could not. In response to a request for clarification regarding the 2019 entries, the Company indicated: *There is no activity in the 6F 186000 account in 2018 as the stranded administrative and general (A&G) costs were not allocated to the 6F entity at that time*."

The Company further explained that in "*December 2019, using the calculated stranded A&G costs, a series of three journal entries were created to transfer the costs to the 6F 920000 account and then eventually to the 174RRB account.*
Journal Entry 362662: DR 920000 (Admin + Gen), CR 242990 (Misc Current + Accrued Liabilities)
Journal Entry 362670: DR 186000 (Misc Deferred Debits), CR 920000 (Admin + Gen)
Journal Entry 362671: DR 174RRB (Misc Current Assets – RRB), CR 186000 (Misc Deferred Debits)"

As a result, Audit recommends that none of the reported O&M costs be recovered through the RRB stranded cost mechanism, as they were not booked to the generation general ledger during 2018. The filing is a representation of what the costs ***would have been had they actually been posted during 2018***. Refer to the **Conclusion** of this Report and **Audit Issue #5**

Schiller mercury boiler remediation project $48,433,022

Attachment RAB-1 page 10 of 13 reflects the costs of one workorder, SSU12D6F relating to the removal of mercury from the boilers at the Schiller Station. The costs are also noted within Attachment CAF-1, page 77, bates page 0175. Refer to Attachment CAF-1, testimony of Catherine Finneran regarding the removal of the mercury boiler units 1 and 2 at Schiller Station. When the plant was constructed, mercury was known to be a more efficient heat transfer agent than steam, so the use of mercury was chosen. In an effort to make the sale of the facility more attractive to potential buyers, and in the docket DE 16-817, the removal of the mercury boilers (and subsequently all related materials) was agreed by JP Morgan, PUC Staff, and Eversource and approved by the Commission in Order No. 25,956. PUC Audit conducted an audit of the Mercury Removal costs as of March 2017, in docket DE 16-817. As reported, the costs summing to the $48,433,022 were identified as shown below, with a comparison to the audited costs as of 3/2017:

	as filed DE 20-005	prior Audit DE 16-817 a/o 3/2017	Change DE 20-005 vs DE 16-817	% Change
Labor	$ 433,691	$ 166,861	$ 266,830	160%
P-card Business Expenses	$ 8,368	$ 1,057	$ 7,311	692%
Materials and Equipment	$ 1,568	$ 10,072	$ (8,504)	-84%
Ayer Electrical	$ 48,188	$ 35,703	$ 12,485	35%
CES for Cable Trays/piping	$ 1,262		$ 1,262	n/a
Clean Harbors for Environmental Clean-up	$ 278,912		$ 278,912	n/a
GZA Geoenvironmental for Project Mgmt	$ 1,819,843	$ 206,646	$ 1,613,197	781%
Integral Consulting	$ 12,933		$ 12,933	n/a
Manafort Brothers for Demolition & Disposal	$ 44,306,547	$ 4,959,553	$ 39,346,994	793%
Mohlin & Company for Cable Trays	$ 10,688	$ 11,950	$ (1,262)	-11%
O'Connor Corp for Office Trailer	$ 55,909	$ 55,909	$ -	0%
Newington for Legal Expenses	$ 1,980		$ 1,980	n/a
Williams-Scotsman for Office Trailer	$ 49,588	$ 11,033	$ 38,555	349%
Carrying Charges	$ 1,057,619	$ 46,819	$ 1,010,800	2159%
Allocations	$ 345,925		$ 345,925	n/a
	$ 48,433,021	$ 5,505,603	$ 42,927,418	780%

For the period ended 3/31/2017, PUC Audit conducted an audit of the $5,505,598 (rounded in grid) costs related to the Mercury Boiler Removal Project. The Audit report was issued July 21, 2017. The conclusion of that report indicated that the <u>$5,505,598 was overstated by $20, 993 plus related interest</u>. <u>That Audit report is attached to this report</u>, for ease of review. Eversource provided Audit with change order request #7 dated April 2015, reducing the overall contract price, and an adjusted progress billing statement for the period July 1, 2017 – July 31, 2017. The actual reduced amount was:

Markup applied to insurance premium	$ 8,405.93
Markup applied to bond premium in error	<u>$12,587.50</u>
Prior Recommended Disallowance	$20,993.43
Markup applied to bond warranty premium	<u>$ 775.00</u>
Total Adjusted on Progress Payment	$21,758.43

Integral Consulting as of 10/2019 should reflect an additional $1,210. An invoice for charges in April 2019 was not received until December 2019.

A pivot table demonstrating each of the Schiller related charges was provided, reflecting the $48,433,022, and summarized below:

Entit	Line o	FERC A	Accounting	Charge Type	Sum of Amount	Tab
6F	**24000**	186670	**SSU12D6F**	Allocations-GCBL-Z07	$182,220.83	Labor and EE
6F	**24000**	186670	**SSU12D6F**	Allocations-NPT-Z05	$72,420.94	Labor and EE
6F	**24000**	186670	**SSU12D6F**	Allocations-PR-Z06	$73,976.49	Labor and EE
6F	**24000**	186670	**SSU12D6F**	Allocations-SL-Z09	$135.40	Materials
6F	**24000**	186670	**SSU12D6F**	Allocations-Vehicle-Z13	$17,171.47	Labor and EE
6F	**24000**	186670	**SSU12D6F**	Employee Expense-E10	$7,442.64	Labor and EE
6F	**24000**	186670	**SSU12D6F**	Environmental Outside Services-ES0	$46,356,495.89	Outside Services
6F	**24000**	186670	**SSU12D6F**	Materials + Equipment-M10	$9,936.57	Materials and Pcard Expenses
6F	**24000**	186670	**SSU12D6F**	Miscellaneous Accounting-A10	$1,057,618.98	JE - Carrying Costs
6F	**24000**	186670	**SSU12D6F**	Outside Services-S10	$179,766.17	Outside Services
6F	**24000**	186670	**SSU12D6F**	Overtime-L20	$11,174.62	Labor and EE
6F	**24000**	186670	**SSU12D6F**	Rents + Leases-J10	$49,588.21	Outside Services
6F	**24000**	186670	**SSU12D6F**	Straight Labor- L10	$415,074.00	Labor and EE
6F	**24000**	186670	**SSU12D6F**	UVL	$0.00	Unvouchered Liability
Grand Total					**$48,433,022.21**	

Supporting Excel files downloaded from Generation segment account 186670, Regulatory commission Expense, line of business 24000 documented each individual line item. Costs audited in the DE 16-817 were verified to posting to account 186670 in a timely manner.

Deloitte reviewed and compiled 358 pieces of supporting documentation during its Agreed upon Procedures review. PUC Audit reviewed a sample of those documents for reasonableness.

Bid summaries were issued as part of the request for proposal for the mercury removal project. Generally, the bid process followed:

- Stage 1 - request approval of procurement from Management to solicit the proposal
- Stage 2 - get proposals, preliminarily evaluate the proposals and create short list of qualified bidders
- Stage 2a - request to negotiate with the recommended bidder
- Stage 3 – Management approval to award contract

Because there was no familiarity with the demolition of mercury boilers, Eversource got a list of bidders such as demolition companies, asbestos removal companies, etc., and received 17 contract proposals. After the initial review, a formal request for proposal was issued to nine of the 17. There was a pre-bid meeting, and Eversource structured the bid form with lump sum proposals, such as for setup and demobilization. Four of the nine responded. One company removed themselves from consideration, one had no reliable subcontractors. The two remaining bidders were considered able to compile a team of experts with environmental, mercury, and demolition experience. Using an average best estimate of quantities for a unit price contract multiplied by average price to estimate contract, then a scoring methodology, Eversource chose Manafort Brothers, Inc. Manafort provided lump sum for mercury removal, the other bidder did not. As another verification of the unusual demolition to be done, the representative from GZA GeoEnvironmental reviewed the proposals and concluded that Manafort was the proper bid to select.

The Company indicated that the removal was the most complex project encountered, due to challenges in securing proper knowledgeable labor, physical logistical issues, environmental considerations, and health and safety issues. The ability to estimate scope, cost, etc. was difficult due to the lack of experience, in the entire country, with mercury removal of a portion of a functioning generating station.

Monthly reports regarding the progress, costs, etc. were filed with Commission (see docket DE 16-817). The final monthly report was submitted in July, 2019.

Manafort Brothers, as lead contractor for the demolition and removal, began the physical demolition in early 2017 and found that the work was more complex due to the location of additional mercury found throughout the system. All removed components were covered with asbestos. Containments were established around the removal process. The removal had to deal with air emissions, regarding how the demolition dealt with the mercury actually removed, and the health and safety of workers. NHDES approved of the dismantling procedures, but the demolition did not need air permit, nor did it seek one. In the summer of 2017, Manafort got to components where known mercury was anticipated, and they found gallons rather than residual droplets as anticipated. Pipes that were thought to have no mercury, sweat mercury. In June 2017, there was a safety stand-down due to health and safety concerns, waste management, air emissions concerns, etc. Manafort re-assessed how to move forward. The contract was initially based on production rates, using a fixed price basis. The contract for time and materials was added. For example, required safety suits cost almost $70 apiece to ensure mercury did not seep into the skin, as it would through less expensive suits. In November 2017, through 2018, the dismantling began again, and demobilization continued through 2019.

GZA GeoEnvironmental had an onsite control contractor to vet invoices and every item regarding labor hours, equipment, and materials. Once actual invoices were received, they were verified to additional detailed backup packages.

Where mercury was originally installed, over the years, other plant was built near it, so the demolition work had to be sequenced in small pieces to ensure the plant could operate. Because of the complexity of removing portions of a functioning generating station, rather than using large machinery to demolish the facility, workers had to saw small pieces of metal using hand-tools. When larger portions were separated, the originally sealed piece then exposed hazardous waste. The process continually had to balance safety and efficiency.

3,500 tons of mercury and asbestos were disposed, most removed by hand. Labor costs were higher than originally anticipated as a result. During the down time in 2017 the Manafort employees were kept on staff because they were highly trained, and neither Manafort nor Eversource wanted to lose their expertise. There was other work done on site by the Manafort employees that was not part of the mercury removal project, and was not charged to the project. Eversource did not pay for any legal costs relating to employees complaints about potential health and safety concerns, resulting in the 2017 safety shutdown, although Eversource did pay for blood tests. As a result of a worker complaint to OSHA, MBI moved toward aggressively changing their health and safety procedures.

Amendments to the Manafort Brothers Contracts were reported to include:

- A change from Lump sum $18,000,000 to unit price
- First amendment went out with initial notice to proceed 10/26/2016
- A second amendment dated 1/31/2018 changed the terms from unit price to time and materials.
- 5% Retainage was held based on the unit price contract, not the amended time and materials contract, so once the contract changed the retainage was released $913,365.04 when billed, as documented in the third contract amendment dated 1/31/2018.
- A Performance assurance bond of 1.5% of the contract, was still held in case contract was not met.

A total of eighteen change orders were documented over the course of the demolition period.

Generally, subcontractors had price increases due to the timing of the demolition and removal work. When the project began, the majority of work was anticipated to occur during the (construction) off-season. However, due to issues encountered, and delays, the work continued into the construction-season, along with union rate increases.

<u>Ayers Electric $48,188</u> was hired by Eversource to do preparation prior to mobilization, such as installing temporary electric panels at various elevations on the boilers, and were then brought back onsite to disconnect the panels. The $48,188 represents an increase of 35% or $12,485 since the 3/2017 audit related to DE 16-817. Further detailed review was not conducted.

<u>CES structural engineers $1,262</u> were contracted by Manafort Brothers to install support for cabling and wiring and support for communication trays. There was no change to the amount charged since the 3/2017 DE 16-817 audit, therefore no additional audit work performed.

<u>Clean Harbors $278,912</u> was hired for clean-up work not in the initial or amended scope, such as clearing of roofing that was found to be contaminated with mercury, etc., and floor drain inspections and cleanouts. There had been no costs incurred when the DE 16-817 audit was conducted. Audit was unable to review invoices, due to the time constraint of the instant audit.

<u>GZA GeoEnvironmental $1,819,843</u> was hired initially regarding procurement and quantity estimating and helping with RFP, then were integrated into daily oversight of time and materials, eventually becoming onsite project management and risk assessment. As of 3/2017, GZA had been paid $206,646. The additional $1,613,197 after 3/2017 was

verified to samples of invoices reviewed by Deloitte as part of the Agreed upon Procedures.

Integral $12,933 + $1,210 = $14,143, was hired as a 3rd party to review the risk assessments calculated by GZA Geo Environmental. The $1,210 was an invoice for work performed in April 2019, but the invoice was not received or processed until December 2019. This company was hired after the 3/2017 DE 16-817 audit.

Manafort Brothers, Inc. (MBI), $44,306,547, acting as the general contractor, used several subcontractors, and began work on 10/24/2016. Within the DE 16-817, MBI costs were $4,959,553. Over the period 4/2017 through 3/29/2019, additional costs of $39,346,994 were incurred. The largest subcontractors, paid through the MBI contract, were reported to be:

- Absolut – for asbestos removal
- Frank Will and Sons - specialty boiler contractors, fit-ups, removal, etc., but not mercury specialists
- TRC Companies, Inc. is "*a global consulting, engineering and construction management firm that provides technology-enabled solutions to the power, oil & gas, environmental and infrastructure markets*" according to the website www.trccompanies.com
- Henry Patrick as consultant-former employee
- Diamond- to cut concrete
- Restoration contractor
- Transportation to waste disposal US Ecology, or Clean Harbors

PUC Audit sampled progress payments that were part of Deloitte's Agreed upon Procedures which documented the amount due, the details and supporting documentation for each expense, approval for the payment by the GZA representative, and a notary stamp from the Commissioner of the Superior Court of Connecticut.

A notice of substantial completion, dated 4/10/2019, indicated that the scope of work was substantially completed 3/29/2019.

Mohlin & Company $10,688 was hired by Eversource for a spin-off job used for environmental cleanup. Mohlin was already onsite for other non-mercury removal work, and worked with CES, Inc. As of 3/2017, $11,950 had been included in the costs at that time (DE 16-817). The immaterial reduction of $1,262 was the result of a reclassification.

O'Connor Corp., $55,909 provided mechanical support, air supply, water supply, insulation, and rerouting of utilities that went through work areas. There was no change in the amount charged, since the DE 16-817 3/2017 audit report.

Town of Newington $1,980 represents costs paid to the town to "keep the peace". While the amount is not material, **Audit recommends that this figure be removed** from the rolling cost of the Schiller mercury boiler removal project, as it appears to be more consistent with a public relations expense rather than the cost to remove the mercury boilers. Refer to the **Conclusion** and **Audit Issue #6**

William-Scotsman, Inc. $49,588 was paid for rental of portable office trailers. Audit work completed for the DE 16-817 report verified $11,033. The $38,555 additional costs incurred since 3/2017.

Carrying Charges $1,057,619

Carrying charges were booked beginning in March 2017, and continued through the November 2018. Substantial completion of the mercury boiler removal was documented to be March 2019, despite the thermal sale occurring in January 2018.

Schiller **conclusion**

Total proposed Schiller costs	$48,433,022
Newington disallowance	$ (1,980)
Adjusted Schiller costs	$48,431,042

Other divestiture cost $7,929,353

Attachment RAB-1, page 11 of 13, from the filing notes the total Other Divestiture Costs to be $7,929,353. $7,774,379 of the total was vendor invoices while the remaining $154,974 was for incremental labor, employee expenses and other overhead.

The following chart is a listing of costs, by charge type, as noted on page 11 of 13 from Attachment RAB-1.

Charge Type	Balance as of 10/31/2019
Incremental Labor, Employee Expenses and Related Overheads	$ 154,974
Alta Site Surveys	439,015
Benefits Support	239,845
Cybersecurity	148,381
Economic Analysis for Settlement Agreement Proceeding	357,348
Environmental Site Assessment	488,890
Eversource Contractor Labor	142,537
Eversource Pre-Auction Preparation and Witness Testimony	649,853
Eversource Transaction Counsel	2,001,275
FAA License	1,200
Independent Engineering	393,741
Legal - NHPUC Transaction Counsel	211,709
Market Study	235,511
NHDES Fee	116,550
Other	35,342
Other Legal Services	526,155
Photography	59,587
Post-Divestiture Transition Support	1,081,687
Real Estate	58,050
Virtual Data Room Hosting	587,702
Total Other Divestiture Costs (Rounded)	$ 7,929,352

Approximately 600 individual invoices, from 54 vendors, make up the $7,774,379 vendor total. Audit reviewed a random selection of invoices from each category.

Incremental Labor, Employee Expenses and Related Overheads $154,974

A spreadsheet provided by the Company shows that $154,974 was booked to general ledger account 186670 for employee expenses and labor. The spreadsheet shows $69,680 of the total are allocations; $12,465 is for employee expenses and the remaining $72,830 is for straight labor.

Audit requested supporting documentation for $137,220, or 89%, of the total charges. $69,212 of the reviewed total was for allocations. Eversource provided the historical rates for the Non-Productive Time and Payroll Benefit loader and a spreadsheet showing the labor amount and the resulting overhead calculation on a monthly basis.

$3,706 of the total reviewed were for employee expenses. $96 of the total was for travel expenses. Per Eversource's policy, expenses under a $25 threshold do not require a receipt. This travel total was four transactions in which only one was over $25. Audit reviewed the receipt for a taxi fare. $3,600 of the total was for meals purchased and

Audit reviewed the supporting detail. The remaining $10 was also for an employee's meal but due to being under the threshold, no receipt was reviewed.

Audit was able to verify the $3,706 of employee expenses to receipts received; however, Audit is unable to determine if the charges were incurred due to the sale of the generation assets. Audit recommends removing **$3,706** from the filing. **Audit Issue #7**

$64,301 was for straight labor. Eversource provided supporting documentation for the two employee's that were selected by Audit. Documentation provided include timesheets from Eversource's time and attendance system, along with salary and hourly data. Audit verified the number of hours to the timesheets and recalculated the pay amount without exceptions.

Alta Site Survey $439,015

Eight vendors were paid $439,015 for Alta Site Services. Pointopintsurvey.com notes that, "*An ALTA Survey is a detailed survey performed by a registered licensed surveyor, prepared in accordance with the standards specified by the American Land Title Association (ALTA) and the American Congress of Surveying and Mapping (ACSM). An ALTA Survey shows the boundaries of the property, the location of improvements on the subject property, including any and all structures, fences, utility lines, roads, etc., along with the location of any/all easements. This is one of the most detailed surveys available…"*

Four invoices, totaling $7,331, from AECOM Inc. were booked to account 186670. Audit reviewed all four invoices in detail. All four invoices were from 2015 and were booked to GL account 186670 in 2015. The invoices were for ALTA surveys at Canaan Hydro.

Eight invoices, totaling $30,779, were booked to account 186670 from Hayner Swanson Inc. Audit reviewed in detail all eight invoices. The invoices were for ALTA surveys at Garvin Falls. All invoices were booked to general ledger account 186670 in the same year they were received. Invoices were from 2015 through April 2018.

Ten invoices, totaling $52,972, from Holden Engineering & Surveying were booked to GL account 186670. Five invoices totaling $41,801, or 79% of the Holden invoice total, were reviewed in detail by Audit. Invoices reviewed were for boundary/ALTA surveys of Hooksett, Bristol, Concord and plan modifications. Invoices reviewed were from 2015 and April 2018 and were booked to account 186670 in the year received.

One invoice, from McEneaney Survey Associates, Inc., totaling $2,500 was booked to account 186670. Audit reviewed the invoice, from October 2015, for professional services to update ALTA/ACSM Land title Survey of 300 Gosling Road in Portsmouth, NH. The invoice was booked to general ledger account 186670 in October 2015.

Seventy-three invoices from Meridian Land Services, Inc, totaling $144,904 were booked to account 186670. Audit selected invoices greater than $5,000 to review in detail. Eight invoices, totaling $52,615, were for ALTA and easement plans for several locations. Seven of the invoices reviewed were from 2015 and one from 2017. All eight invoices were booked to account 186670 in the year the invoice was issued.

Ninety-six invoices, totaling $146,324, were booked to general ledger account 186670 from TF Moran Inc. Invoices with a total greater than $5,000 were reviewed in detail. Eight invoices, totaling $75,979 or 52%, of the TF Moran total were selected for review. During Audit's review of the selected invoices, it was discovered that taxes, that were not included on the invoice, were being added to the total paid. Audit questioned Eversource and they noted that "*it was determined that the purchase order used was a Connecticut-based purchase order set up to apply sales tax and therefore tax was applied to the invoice. This should not have happened and therefore the tax will be removed from the monies to be recovered in this filing*". Eversource provided a spreadsheet noting the total amount of taxes for TF Moran to be deducted. **The total of $5,804 will be removed from the filing by the Company.** Audit randomly selected invoices to verify the tax amount noted by Eversource without exception. **Audit Issue #7**

Two invoices totaling $18,436 were booked to general ledger account 186670 from William T Wormell. Audit review both invoices in detail. The invoices totaled $17,705 and taxes of $731 were added to the invoice total. In the spreadsheet provided to Audit's TF Moran question above, Eversource identified the **$731** of taxes, that Audit reviewed, would be removed from the filing. **Audit Issue #7**

The final ALTA survey vendor was York Land Services. Fourteen invoices, totaling $35,768, were booked to general ledger account 186670. Audit selected the two largest invoices, totaling $25,400 or 71% of the total York invoices, to review in detail. The invoices were for an update to the ALTA survey for Gorham Hydro and Smith Hydro-Berlin. Both invoices were dated January 28, 2016 and booked to the general ledger in February 2016.

<u>Benefits Support $239,845</u>

Two different vendors were paid a total of $239,845 for benefit services provided. The first vendor was AON Consulting Inc. and a total of $6,774 was paid and booked to account 186670. The invoice was dated July 2017 and it was booked to the GL in September 2017. The actual invoice, for non-pension trust payable, totaled $16,458, but noted $6,774 of the invoice was for "PSNH Generation Divestiture Support".

The second vendor, Towers Watson Delaware Inc., was paid $233,071 for thirteen invoices. Audit requested copies of the four largest invoices, totaling $216,269 or 93% of the total paid to Towers Watson Delaware. Eversource provided the actual invoices for the months of December 2017, January, February and March of 2018. The invoices note the portion that pertains to PSNH; however, Audit is unable to determine if the charges are in fact due to the sale of the generation assets. Audit recommends **removing $233,071** from the filing. **Audit Issue #7**

Cybersecurity $148,381

One company, Atlantic Data Security was paid $148,381 for cybersecurity protection. Two invoices, in the amounts of $104,262 and $42,673 plus $1,447 added to the invoice for tax, was booked to GL account 186670. Invoices were for hardware and software for threat prevention such as malware, anti-bot, antivirus and URL filtering among other things. Also included in the $104,262 invoice was two three-year subscriptions. The prices of the three-year subscriptions were $37,200 and $29,760. Audit determined the yearly value of the subscriptions were $12,400 and $9,920 respectively. Audit recommends removing two years of each subscription from the filing totaling **$44,640.** The tax amount of **$1,447** should also be removed. **Audit Issue #7**

Economic Analysis for Settlement Agreement Proceeding $357,348

Two vendors were paid a total of $357,348 for economic analyses for settlement agreement proceeding. Regional Economic Models Inc. was paid a total of $62,000 for three invoices. Audit reviewed all three invoices in detail. All three invoices were for consulting services for extension/update to a previous study, economic impact study and for testimony. All three invoices were booked to general ledger account 186670 in the year they were received. Audit requested clarification from Eversource on the format of the invoices. The largest invoice, $46,000, was in a different format than the other two invoices reviewed. Audit questioned if Eversource knew why the invoice was different and they noted they were unaware. Eversource did also note:

"Per Exhibit Y and Exhibit aaa in Docket No. DE 14-238, the New Hampshire Public Utilities Commission requested Regional Economic Models, Inc. ("REMI") to run simulations to model energy cost savings over the 2017-2021 time period."

The second vendor was The Brattle Group and $295,348 was paid to them for five invoices. Audit reviewed all five invoices in detail. Three of the invoices were from 2015; two of them were booked to GL account 186670 in 2015 and the other invoice was a December 2015 invoice and was booked to the general ledger in February 2016. PSNH provided the February statement from The Brattle Group which shows the December invoices as still outstanding. The other two invoices were from 2016 and were booked to account 186670 in 2016. All invoices noted they were for professional services. Invoices noted the hours and rates charged. The 2016 invoices contained detailed summary of work completed; however, they were redacted and Audit was unable to determine what the exact professional services provided. Audit requested copies of the unredacted invoices and received the following response:

"The Brattle Group was not Eversource's consultant, it was non-Advocate Staff's consultant. Dean Murphy, Principal at The Brattle Group, an economic consultancy based in Cambridge, Massachusetts, submitted testimony dated January 26, 2016 in Docket No. DE 14-238, "PSNH Determination Regarding PSNH's Generation Assets," on behalf of Non-Advocate Staff. See https://www.puc.nh.gov/Regulatory/Docketbk/2014/14-238/LETTERS-MEMOS-TARIFFS/14-238_2016-01-26_EVERSOURCE_TESTIMONY_D_MURPHY.PDF

Non-Advocate Staff had PSNH engage Brattle on their behalf, and directed PSNH to pay for Brattle's services. See Attachment Audit 43 DE14-238 Brattle Group Consulting Contract Extension.pdf containing a letter dated January 5, 2016 from Staff's Les Stachow directing PSNH to increase Brattle's contract and an email dated January 26, 2016 from Staff's David Shulock indicating that Staff submitted invoices from Brattle to PSNH for payment."

Eversource noted that the unredacted invoices would need to be obtained from Non-advocate Staff.

Environmental Site Assessment $488,890

Three vendors were paid $488,890 for environmental site assessments. Haley & Aldrich Inc. was paid $441,894 for twenty-seven invoices. Audit reviewed the three largest invoices, totaling $299,355 or 68%, of the total paid to Haley & Aldrich. The invoices were for worked performed in October, November and December 2015. The invoices all note the hours and rates of the Haley & Aldrich employees and notes which station for which the work was performed. The invoices also break down the charges between "in scope" and "out of scope". The total in scope portion of the invoices was $85,532 and the total out of scope was $213,824. All three invoices were booked to general ledger account 186670 in 2015. Audit request clarification as to what the "in scope" and "out of scope" classification was. Eversource provided the following explanation regarding the Haley & Aldrich invoices:

"The matter of liability for environmental issues at the myriad generating station sites was paramount throughout the divestiture process. As part of the divestiture process recommended by JPMorgan and approved by the Commission, an "Independent Engineer" was engaged to prepare a confidential report that would be provided to all bidders selected by JPMorgan and who executed a non-disclosure agreement.

Haley & Aldrich (H&A) was hired to perform Environmental Site Assessments (ESA) of each property being sold as part of the required NH Generation divestiture process. This task is customary in such sales. This task employs the services of a competent professional engineering firm to conduct a thorough review of all historical, current and potential environmental risks related to the property being sold in order to insure that the bidder/buyer makes a fully informed bid for the assets with full knowledge of any such risks.

The standard technique employed by environmental professionals for this task follows accepted practices and guidelines and involves interviewing site and corporate employees; detailed site visits; research of company, town, state and federal records for any relevant information on the property.

H&A was hired to perform this work based on their competitive hourly rates and their unique experience of having done much of this work for these properties previously, during 1998, when these assets were about to be sold initially as part of electric industry restructuring efforts in New England.

As can be seen in…two letters from H&A, the base scope that they were commissioned to perform was required to be expanded to include changes in base-line scope, needed additional deliverables , numerous meetings and technical reports, and multiple changes in schedule caused by the added work and delays caused by others. Each of these letters identify needed changes which were approved by Eversource. Eversource engineers and environmental professionals worked very closely with H&A during every step of this important effort and fully understood and supported each change in an effort to provide proper quality deliverables.

The text used by H&A communications and invoices uses the term "Out of Scope". This is the term their firm uses to clearly illustrate that certain tasks and resultant costs were beyond the original, standard ESA scope. The use of this term does not in any way mean that the work performed has unneeded or expanded beyond the minimum needed to fully complete this work to the satisfaction of NH DES, Eversource or the bidders. Examples of some additional specific "Out Of Scope" work, beyond developing ESA include assistance to analyze and draft responses to the lengthy and detailed comments of each draft ESA made by the NH DES; conduct new soil and sample well ground water sampling and analyses at numerous sites to verify conditions stated on prior reports; and numerous meetings with Eversource technical professionals and legal counsel to expand draft ESAs to incorporate new information.

The NH DES reviewed each ESA in detail, taking many months to do so. They had numerous, complex questions and clarifications desired on each of the approximately 18 ESAs. In this way, the ESAs were thoroughly vetted by the State which further enhanced the credibility and thoroughness of the ESAs. This reduced risks of environmental exposures are factored into bids of potential buyers and as such caused their bids to be higher that otherwise would have been the case.

Another added task required of H&A had to do with the fact that JPMorgan selected Leidos Engineering, LLC of Framingham, Massachusetts to prepare the Independent Engineer's Report. A substantial portion of that Independent Engineer's Report (20%) was dedicated to an "Environmental Review of the Facilities" that would be relied upon by bidders as part of their due diligence and bid formation process. To prepare this Environmental Review, Leidos required H&A to respond to questions on their detailed "Environmental Site Assessments" ("ESA") performed at each location."

The second vendor was Normandeau Associates Inc. One invoice totaling $12,000 was paid and booked to general ledger account 186670 in 2015. Audit reviewed the invoice for professional services for the month of October 2015. The invoice notes the hours and rate charged but does not state a detailed description of professional services provided.

The third vendor was Terracon Consultants Inc. Three invoices, totaling $34,996, were booked to general ledger account 186670 in 2015. Audit reviewed the three invoices in detail. All three invoices were from 2015 and were for generation due diligence technical support. The hourly billing summary notes the work performed.

Eversource Contractor Labor $142,537

Eversource paid one vendor, Randstad US LP, $142,537 for contractor labor. "Page 11 – Other Costs Detail" Excel spreadsheet provided by the Company notes that all thirty of the vendor invoices were for one individual; a former PSNH employee. This employee was employed by PSNH until August 31, 2018 per severance documents provided during this audit. The Excel spreadsheet noted above shows the Randstad invoices were for the period of August 2018 through May 2019. The detailed general ledger shows the invoices were booked to account 186670 in 2018 and 2019.

Audit selected ten invoices to review; five from 2018 and five from 2019. All supporting documentation for the payments were screen shots from the Maximo accounts payable system. The documentation showed the consultants name and the total amount charged. The documents provided do not detail the service provided. Audit requested copies of actual invoices and a description of what services were provided as the sale of all facilities were complete. Eversource provided details from the time entry system that is used which includes worker comments as to what task was worked on. The details provide the week ending date, billable hours, and the total dollar amount.

Eversource also provided the following note regarding the tasks performed by the former employee:

"Mr. Smagula's position with Eversource was eliminated following the sale of the hydro generating stations in August, 2018. Due to his long-time, first-hand knowledge of the generating facilities and his regulatory process experience he was asked to provide part-time assistance to Eversource to close out remaining divestiture-related issues and to support remaining NHPUC reviews.

From September, 2018 through May, 2019 Mr. Smagula assisted with numerous and varied issues. As all former NH Generation employees were either retired or had become employees of the new owners of the fossil stations (Granite Shore Power) or the hydro stations (Central Rivers Power Mr. Smagula's knowledge and ability to access information has been invaluable.

The tasks and projects that Mr. Smagula provided assistance included, inter alia:
Support of the Schiller mercury equipment demolition project. This included at least one weekly meeting at Schiller with the entire project team of engineers, contractors, consultants, managers, etc., where progress was discussed and problems were either resolved or direction was given to the on-site personnel. He participated in frequent related conference calls, electronic messages and discussions. He participated in weekly Eversource management steering committee meetings; periodic corporate executive briefings; and monthly report development for the NH PUC staff. Also, frequent calls were held with NHPUC staff to discuss project schedule, current issues, cost, etc. This overall effort required appropriate preparation and execution by Mr. Smagula.

As part of the fossil plant divestiture of Schiller Station owner, a task that Eversource had to complete was the resolution of a so-called Recognized Environmental Condition relating to five, large buried and abandoned oil pipelines which extended from a dock at Schiller Station to a location on the Newington Station property. These lines ran together underground along and under active railroad tracks. They had been *formerly owned by Mobil Oil to support their Newington Oil Terminal which PSNH acquired many years ago. With significant effort by Eversource guided by Mr. Smagula, the NH Department of Environmental Services (NH DES) agreed to a process to grant a waiver that would allow the pipes to remain in place and not be removed. This saved well over $1 million. The pipes were cleaned and filled with concrete. However NH DES wished to have soil adjacent to the pipes, in numerous locations, tested to confirm that no soil contamination had occurred. GSP environmental attorneys caused numerous, lengthy delays to this effort which resulted in significant delay in completing this matter. The effort is now expected to be completed this summer. Numerous GSP meetings, working with consultants, contractors, the Railroad, etc. all are factors in this effort.*

As part of the Hydro plant divestiture contract, various maintenance/repair tasks had to be performed by Eversource. Mr. Smagula had responsibility for overseeing these tasks, such as:

The replacement of a number of large generator electrical breakers at Amoskeag Station in order to meet safety code requirements. Prices were obtained, the work was awarded in 2018 with a project duration of about a year due to the needed project sequence of design, engineering, equipment procurement, fabrication, delivery , installation, testing and final documentation which was completed in mid-2019. The other task involved the replacement of a deteriorated Draft Tube at Hooksett Station. This device is a large, steel conical shaped structure which is attached to the bottom housing of the vertical hydro turbine to maintain efficiency and minimize maintenance. This project also involved obtaining bids, award, fabrication, delivery, installation of a temporary coffer dam and installation with the work completed in mid-2019. This project involved bids, award, fabrication, delivery, removal and installation. Since the work was below river water height, a temporary coffer dam was required to be installed. Repairs to the Gorham Dam and Canal Sluiceway necessitated by high river flows prior to closing on the sale.

Many hundreds of invoices have been received by Eversource after the sale of the fossil assets beginning in early 2018 and the hydro assets beginning in late August, 2018. Being the only experienced and knowledgeable person available in both these areas, Mr. Smagula worked to review and research each as needed to determine the proper disposition of each. The materials or services billed to Eversource had to be verified regarding the scope of supply, timing of the order and delivery as well as other factors pertinent to each invoice. After research, Mr. Smagula advised Eversource Accounts Payable and Procurement departments if Eversource should pay the invoice or if it should be returned to the vendor to have them rebill the new owner. The new owner also was advised to issue a new PO to the vendor and/or otherwise take action so future invoices would go to them. The volume of invoices that required review diminished greatly during 2019, nevertheless some are still being received currently and Mr. Smagula continues to deal with them.

Numerous miscellaneous topics required Mr. Smagula's involvement to assist numerous departments. Examples are : Property Tax Department questions; various Human Resource questions including complaints to the NH Labor Board by a former employee; assistance to corporate T&D personnel on protocol and training to allow limited access to our hi-yards and substations by employees of the new station owners; help on local, state and federal agencies' questions and responses; assisting the new owners on ISO-NE inquiries on plant classifications; assisting our legal department on *numerous technical and contractual issues; assisting with the shut-down of the Amoskeag Fishways to the public and the disposition of displaced employees ; etc.*

Mr. Smagula was also instrumental in responding to litigation brought against Eversource by the Conservation Law Foundation and the Sierra Club relating to compliance with the NPDES permit at Merrimack Station. With Mr. Smagula's assistance, the scope of PSNH's involvement in the lawsuit was initially greatly narrowed and ultimately CLF and SC dismissed PSNH from the lawsuit entirely.

Mr. Smagula was also PSNH's expert witness in two "Reconciliation" dockets opened by the Commission - - Docket No. DE 18-073, "Annual Reconciliation of Energy Service and Stranded Cost for 2017," and Docket No. DE 19-080, "Annual Reconciliation of Energy Service and Stranded Cost for 2018." The latter docket remains open awaiting hearing, and Mr. Smagula's services are required to support his pre-filed testimony.

All these activities involve numerous discussions, calls, researching history, and messaging with various internal and external personnel as well as outside attorneys and consultants."

<u>Eversource Pre-Auction Preparation and Witness Testimony $649,853</u>

One vendor, Concentric Energy Advisors Inc., was paid $649,853 for pre-auction preparation and witness testimony. A total of eleven invoices were paid by Eversource. Audit reviewed the three largest invoices totaling $334,237, or 51% of the total paid. The three invoices were from July, August and September 2015. All three invoices were booked to the general ledger in 2015. The invoices note the charges were for Divestiture Design and Planning. The billing backup page of the invoices provides a breakdown of hours, rate and a note of the service provided.

<u>Eversource Transaction Counsel $2,001,275</u>

Forty-one invoices, totaling $2,001,275, were paid to Balch & Bingham LLP for legal services. Audit selected invoices greater than $100,000 to review in detail. Six invoices, totaling $795,154 or 40% of the total paid, were reviewed. Four of the invoices were from 2017 and two were from 2018. All six invoices were booked to general ledger account 186670 in the year they were received. All invoices contained a detailed description of the services provided hourly.

<u>FAA License $1,200</u>

One vendor, Springfield Terminal Railway, was paid for a FAA License. Due to the immateriality of the $1,200 paid audit did not review the invoices in detail. The $1,200 charge was booked to general ledger account 186670 in December 2017.

<u>Independent Engineering $393,741</u>

Leidos Engineering Inc. was paid $393,741 for engineering services. Audit selected the two largest invoices, out of a total of four invoices paid, to review in detail. The two invoices totaled $326,846 or 96% of the total paid. The invoices note that there was a contract in place valued at $400,000 for the period of 10/12/206 to 6/1/2017. Invoices reviewed were for the period of December 2016 and January 2017. Both invoices were issued in 2017 and PSNH booked them to GL account 186670 in the same year. Support to the invoice shows the days, hours and rates worked. No detail of service provided was included.

Legal – NHPUC Transaction Counsel $211,709

Twenty-eight invoices were issued to PSNH from the PUC for work performed by Sheehan Phinney Bass & Green. Invoices totaling $211,709 were booked to general ledger account 186670 in 2016, 2017, 2018 and 2019. A detailed review of the invoices was not performed as Audit verified the amounts noted in the filing to a tracking spreadsheet provided by the PUC Business Office.

Market Study $235,511

Two invoices, totaling $235,511, were paid to PA Consulting Group for a market study. Both invoices were reviewed in detail by Audit. The largest invoice, totaling $222,405, noted it was for "*Professional fees for energy market advisory support associated with the sale of the PSNH generating assets*". The second invoice, totaling $13,106, noted it was for "*providing support to Eversource asset sales transaction by participating in bidder conference calls and answering bidder questions".* Both invoices contained detail such as the date, hours and rates charged. The invoices were from 2017 and booked to GL account 186670 in 2017.

NHDES Fee $116,550

One invoice totaling $116,550 was paid to The State of New Hampshire Department of Environmental Services (DES) for an expedited review of generating sites. No actual invoice was provided just an Environmental Fact Sheet from DES noting the fees charged for the expedited assessments. Audit verified the rates to the DES website, www.des.nh.gov. Payment was made and booked to general ledger account 186670 in 2015.

Other $35,342

Eight vendors were paid for "other" services. Due to the immaterially of the payments to four vendors, totaling $525, the invoices were not reviewed in detail. The payments were booked to GL account 186670 in 2015, 2017 and 2018.

Audit reviewed eight invoices from Grace Limousine totaling $19,607. All eight invoices were from 2017 and booked to general ledger account 186670 in 2017. Invoices note that the passenger was an Eversource guest and the transportation rates was $100 an hour. Also included in the total invoiced was a 20% gratuity and 10% regulatory fee. Audit notes these charges of $**19,607 should not be allowed** for recovery as they are deemed imprudent. **Audit Issue #7**

$4,121 was paid to JP Morgan Chase Bank in the "other" category. Audit reviewed, in detail, the two invoices paid. Both invoices were from Grace Limousine for transportation of JP Morgan employees. The invoices were from 2017 and booked to GL account 186670 in 2017. **Audit also recommends removing the $4,121** paid to JP Morgan from the filing as the contract with JP Morgan allowed a cap of expenses in which they were fully paid, as noted in the JP Morgan Advisor Fees section. **Audit Issue #7**

Eleven invoices were paid to New England Document Systems totaling $7,678. Audit reviewed the largest invoice, totaling $1,753, in detail. The invoice was from December 2015 and was booked to general ledger account 186670 in January 2016. The invoice noted services provided was scanning power plants images and files.

Three invoices were paid to Steven Patnaude LCR, totaling $4,221. Audit reviewed the largest invoice in detail, totaling $3,496. The invoice was from 2016 for transcripts of hearings held at the PUC. The hearings were for dockets DE 14-238 and DE 11-250 held on February 2, 3, and 4 of 2016. The invoice was booked to account 186670 in March of 2016.

A journal entry from 9/7/2018 removed $809 of "other" expenses from account 186670 as they were booked incorrectly.

<u>Other Legal Services $526,155</u>

Eight vendors were paid a total of $526,155 for "other legal services". One vendor, Sulloway & Hollis was paid $677. Due to the immaterially of the amount, Audit did not review the supporting documentation.

Two invoices, totaling $3,212 was paid to Bernstein Shur Sawyer & Nelson PA. Audit reviewed the largest invoice, totaling $3,095, in detail. Supporting documentation provided was a statement of balance noting the amount of $3,095 was 30 days past due. Audit requested a copy of the actual invoice, which Eversource provided. The invoice noted the hours work and the rate charged by the firm. The invoice also provided a description of the work performed, which notes it was for preparation and participation in a meeting with the Maine PUC regarding the NH divestiture. The invoice was dated May 2017, the statement was from June 2017 and the charge was booked to account 186670 in August 2017.

$38,835 was paid to Day Pitney LLP for five invoices. Audit reviewed, in detail, the two largest invoices totaling $32,355, or 83% of the Day Pitney total. The two invoices were from 2015 and booked to account 186670 in 2015. The invoices provide a breakdown of the hours billed, rate, and a brief description of the services.

Seven invoices, totaling $439,868, were paid to The McLane Law firm for legal services. Audit reviewed the two largest invoices, totaling $223,546, or 51% of the total paid to McLane. Both invoices were issued and booked to GL account 186670 in 2018. The invoices provide a detail of the services provided, the hours, and rates.

$9,384 was paid to US Bank for legal services rendered on US Bank's behalf for the release of PSNH properties as a result of the purchase and sales agreement with Granite Shore Power LLC. The invoice was dated January 2018 and was booked to the general ledger account 186670 in March 2018.

Fourteen invoices, totaling $26,165, were paid to Verrill Dana LLP. Audit reviewed all of the invoices paid to Verrill Dana as the two largest invoices were selected for review and one should not be included in the filing. Invoice 911111211506 in the amount of **$7,703** noted it was services provided for the acquisition of Aquarion. Audit notes this amount should be removed from the filing. **Audit Issue #7**

Audit requested clarification on the Maine liens opinion letter and SPE financing. Eversource provided the following explanation:

"PSNH owns certain transmission and distribution properties in the State of Maine. As a result of those properties, PSNH is subject to the jurisdiction of the Maine Public Utilities Commission pursuant to Maine law. The Portland law firm of Verrill Dana acted as Maine counsel to PSNH for two pieces of the divestiture process: 1. The sale of PSNH's ownership share of the Wyman 4 Station; and, 2. Receipt of Maine PUC approval of the creation of the securitization SPE.

PSNH owned approximately 3.14% of the Wyman 4 Generating Station located on Cousins Island in Yarmouth, Maine. The Commission approved the sale of that ownership interest in Order No. 26,060 issued on September 27, 2017 in Docket No. DE 17-105. As part of the sale of that ownership interest, Verrill Dana reviewed the local registry of deeds and state security interest filings to ensure that there were no liens encumbering title to the ownership interest that we were selling to FPL Energy Wyman IV LLC.

The RRB financing required the creation of a "financing entity" or "Special Purpose Entity" or "SPE" as defined in RSA 369-B:2, VI - - i.e., PSNH Funding LLC 3 - - that would actually issue the rate reduction bonds. Under Maine law, the creation of this new SPE as a subsidiary of PSNH required the approval of the Maine PUC pursuant to 35-A M.R.S. § 708. On February 8, 2018, the Maine PUC issued its Order in its Docket 2018-00013 (attached) approving the creation of the SPE. Verrill Dana acted as counsel to PSNH before the Maine PUC to obtain this approval."

All invoices were booked to the general ledger in the year they were received.

Two invoices, totaling $4,921 were paid to Woolmington, Campbell, Bernal & Bent PC. Audit reviewed both invoices for the sale of Canaan, VT hydro. The invoice included a brief description of the services provided along with the hours charged and rates. The invoices were from 2016 and 2017 and were booked to general ledger account 186670 in the same year as the invoices were issued.

<u>Photography $59,587</u>

Two vendors, Aerobo and Michael Fein Photography, were paid a total of $59,587 for photography services. Aerobo was paid $50,000 for aerial photos and video footage of the fossil and hydro stations. Audit reviewed the larges invoice in the amount of $38,396. The invoice provided the proposal of services provided by the company and an itemized bill. The invoice was from November 2015 and it was booked to general ledger account 186670 in January 2016.

$9,587 was paid to Michael Fein for a four day shoot of the power plants to be auctioned. The invoice provided a breakdown of the costs charged. The invoice was dated November 2015 and it was booked to GL account 186670 in the same month.

Post-Divestiture Transition Support $1,081,687

Four invoices, totaling $1,081,687, were paid to PricewaterhouseCoopers Advisory Services LLC. Audit reviewed the largest invoice in the amount of $607,355. A letter provided with the invoice notes the services were from the period of November 1, 2017 through January 10, 2018 to support the fossil generation asset sale. $545,109 of the invoice was for team hours and fees while the remaining $62,246 was for team expenses and administrative support. The invoice was dated May 2018 and it was booked to account 186670 in June for $545,109 and August for $62,246.

Real Estate $58,050

Seven vendors were paid a total of $58,050 for real estate services. Capital Appraisal Associates were paid $2,500 for an appraisal report of Garvins Falls. The invoice was from 2015 and booked to account 186670 in the same year.

Two vendors with charges totaling $1,633 were not reviewed due to immateriality. One of the vendors, Cornerstone Energy Services Inc. was identified by Eversource as erroneously having tax added to the invoice amount paid. The total identified by Eversource to be **removed from the filing is $22**. **Audit Issue #7**

One invoice from Doucet Survey in the amount of **$2,846** notes it was for the Connecticut River Wire Crossing project. Audit recommends the amount be removed from account 1866670 and the filing as the invoice is not related to the generation sale. **Audit Issue #7**

$39,471 was paid to Fidelity National Title Insurance Co for seven invoices. Audit reviewed the largest invoice, totaling $27,395, in detail. The invoice notes the fee was for title examinations and reports of twenty-one sites. The sites and price per site are listed on the invoice. The invoice was from 2015 and booked to account 186670 in the same year.

One invoices from Horizon Associates was paid for $4,500. The invoice notes it was for appraisal services for Rollins Farm. The invoice was from 2015 and booked to account 186670 in the same year.

The final vendor paid was Weston & Sampson Engineers Inc. A total of $7,100 was paid for two invoices. The invoices note they were for Canaan and Mobil Tank

Farm easement plans. Invoices were from January and March of 2018. They were booked to the general ledger in April 2018.

Virtual Data Room Hosting $587,702

Intralinks Inc was paid $587,702 for fifty-one invoices. Audit reviewed the two largest invoices, totaling $342,085 or 58%, of the total paid. Invoices reviewed were from May and June 2017. The invoices note that the charges were for 3 months of virtual data room usage, a page base fee and also an incremental page fee. The invoices were booked to general ledger account 186670 in June and October 2017.

Less: net present value of tax benefits $(64,050,569)

Attachment RAB-1 page 12 of 13 reflects the estimated excess accumulated deferred income taxes relating to the Tax Cuts and Jobs Act effective 1/1/2018, which among other things, reduced the overall corporate income tax from 35% to 21%.

Deloitte calculated, and Audit was provided with several Excel sheets calculating the net present value of the tax benefits. Worksheets reflected:

- A calculated roll-forward of the accumulated deferred income tax reported in the initial filing, updated through 12/31/2018, and updated through 9/30/2019.
- Federal estimated surplus/deficit of ADIT from 2017 through 2042, relating to plant and non-plant. Plant calculated at 24.1 year-life, non-plant at 5 year life. Total estimate $(66,343,025)
- State estimated accumulated deferred income taxes related to Generation were estimated from 2018 through 2022 to be $1,330,508 based on the reduction in the state Business Profits tax rate from 8.2% to 7.9% **Audit Issue #8** rate dropped to 7.7% in 2019 and 2020. The rates per the NH DRA were estimated for 2021 and thereafter to be between 7.5% and 7.9%.
- Deferred Tax Schedules beginning with estimated balances at 12/31/2017 were based on depreciable plant for Federal tax purposes $53,689,102 at 24.1 yr. life; non-plant, non-depreciable for Federal tax purposes at a 5 yr life $12.653,923; depreciable and non-depreciable for state purposes for 5 years $1,330,508 **(refer to Audit Issue #8);** Estimated Accumulated Deferred Income taxes $190,634,836 based on the May 2018 issuance, for a summarized schedule:

Plant/Depreciable Federal	$ 53,689,102
Non-plant/non-depreciable Federal	$ 12,653,923
Depreciable/Non-depreciable State	$ 1,330,508
Estimated ADIT	$190,634,836
Estimated at year 2039	$258,308,369

- The NPV tab demonstrated the estimated $(258,308,369) ADIT through December 2039, and the NPV of the quarterly tax payments, using the Microsoft NPV formula. The calculation reflected estimated tax payments of $(194,257,800). The reflected $(64,050,569) noted as the difference between the $(258million) and the $(194 million) agrees with filing RAB-1 page 12 of 13.

Deloitte workpapers (identified as 12.5) included a copy of the Business Profits Tax rates from 12/31/2016 through 12/31/2021, along with the Business Enterprise Tax rate for the same period; the related Internal Revenue code conformity, and adjustments to the Internal Revenue code section 179 deduction, provided by the State of New Hampshire Department of Revenue Administration, Tax Policy & Legislative Analysis Group. Specifically:

BPT and BET Tax Rates			Internal Revenue Code Conformity		IRC Section 179 Deduction	
For taxable periods ending	BPT Rate	BET Rate	For taxable periods beginning	IRC of	Property in Service	Not to Exceed
on or after 12/31/2021*	7.5/7.7/7.9%	0.5/0.6/0.675%	on or after 1/1/2020	1986, in effect 12/31/18	on or after 1/1/2018	$ 500,000
on or after 12/31/2020	7.70%	0.60%	on or after 1/1/2019	1986, in effect 12/31/16	on or after 1/1/2017	$ 100,000
on or after 12/31/2019	7.70%	0.60%	on or after 1/1/2018	1986, in effect 12/31/16	on or after 1/1/2016	$ 25,000
on or after 12/31/2018	7.90%	0.68%	on or after 1/1/2017	1986, in effect 12/31/15	on or after 1/1/2015	$ 25,000
on or after 12/31/2017	8.20%	0.72%	prior periods	1986, in effect 12/31/00	on or after 1/1/2014	$ 25,000
on or after 12/31/2016	8.20%	0.72%			on or after 1/1/2013	$ 25,000
prior periods	8.50%	0.75%			on or after 1/1/2012	$ 25,000
* estimated rates						

A recalculation of the net present value adjustment was not performed by PUC Audit. The recommended adjustments throughout this audit report will impact the resulting accumulated deferred income taxes and related net present value calculation. Until each adjustment is adjusted out of the rolling balances, the recalculation cannot be accomplished.

Plus: issuance costs $6,807,520

Attachment RAB-1 page 13 of 13 reflects 24 specific lines relating to issuance costs. Summarized, they were identified as:

Funds paid prior to closing	$1,818,169
Funds paid at closing	$4,988,485
Funds paid after closing	$ 865
Total Issuance Costs per RAB-1 page 13	$6,807,520

The reported total of $1,818,169, funds paid prior to closing, as identified in the filing, and verified to documentation listed below, was noted in account 6F 181700, Unamortized Debt Issuance Costs:

Deloitte	$ 206,780
Ropes & Gray	$1,138,972
Hunton	$ 392,253
Securities and Exchange Commission	$ 79,141
Employee Expenses	$ 1,023
Reported prepaid	$1,818,169
Exclude accrual for Deloitte	$ (206,780)
Audited Funds Paid Prior to Closing	**$1,611,389**

The Funds paid prior to closing, $1,818,169 are overstated by the Deloitte accrual in account 181700 of $206,780. Audit noted six accrual entries from January through

June 2018, five of which included account 6F-24000-181700 for $17,231.67, and one in June for $120,621.67. The six sum to $206,780. All offsets were booked to 61.80100.242020. The Company identified the inclusion of the accrual, along with the actual $202,500, which was part of the fees paid at closing. *"…You should have a file … called "Page 13 - Issuance Costs Paid at Closing Support.pdf" in the 13.0 folder for the invoices identified in columns B and C on Attachment RAB-1, Page 13."* Further, on 2/27/2020, Eversource indicated: "*In preparing the response to this audit request it was determined that the $206,780 in Deloitte costs should not have been included in the securitized costs. An adjustment will be made to the 174RRB account to reflect this adjustment."* **Audit Issue #9**

Deloitte reviewed the three largest dollar invoices from Ropes & Gray. Audit reviewed all 18 invoices from Ropes & Gray. Each identified the description of the invoice as "2017 Securitization", and included specific dates, hours, and description of the securitization work performed by individual Ropes & Gray employees. Timeframe for the work ranged from September 2016 through April 2018. Certain invoices reflected an account reference of 181700, while others had no such reference. Audit verified that 100% of the 2017 and 2018 invoices were booked directly to account 6F-181700, Unamortized Debt Issuance Costs. Two invoices incurred in 2016 were debited originally to account 6F 186670, Regulatory Commission Expense, with credit offsets posted to the bulk batch entries to the 6F 232010 Accounts Payable account. The entries were reclassified from 6F 186670 to 6F 181700 in April 2018.

Regarding the Hunton & Williams LLP $392,253, the entry was posted directly to account 6F 181700 in January 2018. The invoice dated 1/8/2018, indicated that the legal firm was the counsel for the bond underwriters regarding the 2017 securitization.

Regarding the Securities & Exchange Commission, $79,141, Audit was provided with documentation that showed "[*T]he company is required to pay a $124.50 per $1M issued."* An attached *"letter shows the calculation for the total amount the company owed for the actual amount issued. PSNH made an initial payment of $62,250 when the S-3 was initially filed with the SEC, then made the $16,891 payment when we issued the debt to get up to the total amount owed".* Audit verified the calculation of $635.663 * $124.50 = $79,141.

Employee expenses of $1,023 were noted within the pivot table of account 181700. Reference lines indicate meals and travel. Specific testing was not conducted due to the immateriality of the total.

Issuance costs of <u>$4,988,485</u> were traced to the "Flow of Funds" closing document dated 5/8/2018 between Eversource Energy and Goldman Sachs. Eversource Energy received the net of the bond face value, less related underwriting and issuance costs as outlined on the closing document. Goldman Sachs issued the bonds, with the proceeds sent to Eversource through the Bank of New York Mellon via the Depository Trust Company (DTC). The closing document, summarized, reflected:

Face value of Bonds	$635,663,200.00	
Original Discount	$ (16,994.47)	
Less Underwriting fees and expenses:		
Goldman structuring fee	$ (250,000.00)	
Goldman Out of Pocket	$ (30,756.80)	
Merrill Lynch Pierce Fennel	$ (194,036.19)	
Barclay's	$ (194,036.19)	
Citi Group	$ (905,502.23)	
Goldman Sachs	$ (1,293,574.61)	
Net Purchase price wired to Trustee	$632,778,299.51	Bank of New York Mellon
Trustee to wire to third parties	$ (2,103,585.61)	
Net wire transfer to PSNH	$630,674,713.83	

The above Underwriting fees sum to	$(2,867,906.02)
The Original Discount above	$ (16,994.47)
The amount to wire to third parties	$(2,103,585.68)
Total paid at closing	$(4,988,486.17)

The entity created to "*Serve as a special purpose subsidiary of Public Service Company of New Hampshire for the purpose of acquiring and holding Rate Reduction Bond property and certain other collateral and to issue and sell Rate Reduction Bonds*", was created in January 2018 according to the NH Secretary of State's website. The entity, PSNH Funding LLC3, is in good standing as of April 2020. The $4,988,486.17 was included within the May 2018 journal entry #303734, establishing the Funding entity (identified within the Eversource accounting system as entity 6S).

The filing also reflects a minor $865 paid to Merrill Corporation for documentation composition, pdf creation and proofing of Securities and Exchange Commission form 8-K for EDGAR filing, paid after the closing, and booked to the prepaid account 181700. Audit questioned the posting of the entry to the 181700 Prepaid account, and was informed that the work order was connected to that initial account.

Total Issuance Costs that should be included as part of the RRB and stranded cost:

As filed	$6,807,520	
Adjustments	$ (206,740)	
Adjusted Total	$6,600,780	**Audit Issue #9**

Conclusion

Based on the review of the Deloitte "Agreed upon Procedures" report, specific invoice testing, timing of postings to the Generation and Distribution segments of the general ledger, and a review for compliance with the Settlement Agreement of 2015 approved by Order 25,920 on 7/1/2016, Audit recommends the following:

	RRB Costs as filed	Recommended Disallowance	Recommended Allowed Costs
NBV Assets/Invntry	$ 718,156,425	$ (73,711)	$ 718,082,714
Sale proceeds	$(196,321,399)	$ -0-	$(196,321,399)
Plant-related stranded	$ 521,835,026	$ (73,711)	$ 521,761,315
Scrubber deferral	$ 98,213,258	$(23,613,258)	$ 74,600,000
Reduction for deferred	$ (25,000,000)	$ -0-	$ (25,000,000)
Net deferral	$ 73,213,258	$(23,613,258)	$ 49,600,000
Reg. assets/liabilities	$ 44,071,225	$ (2,492,942)	$ 41,578,283
JP Morgan fees	$ 3,125,000	$ -0-	$ 3,125,000
Employee separation	$ 6,280,508	$ -0-	$ 6,280,508
Envrnmntl liab. Ins.	$ 943,062	$ (8,000)	$ 935,062
Admin/general	$ 5,459,403	$ (5,459,403)	$ -0-
Schiller mercury	$ 48,433,022	$ (1,980)	$ 48,431,042
Other divestiture	$ 7,929,353	$ (323,698)	$ 7,605,655
Transaction-related	$ 116,241,574	$ (8,286,023)	$ 107,955,550
Less: **NPV tax**	$ (64,050,569)	$ **Note**	$ (64,050,569)
Plus: issuance costs	$ 6,807,520	$ (206,740)	$ 6,600,780
	$ (57,243,049)	$ (206,740)	$ (57,449,789)
Total costs	$ 654,046,809	$(32,179,733)	$621,867,076

Note A recalculation of the net present value adjustment was not performed by PUC Audit. The recommended adjustments throughout this audit report will impact the resulting accumulated deferred income taxes and related net present value calculation. Until each disallowance is adjusted out of the rolling balances, the recalculation cannot be accomplished.

Refer to the following nine **Audit Issues** for further clarification of each recommended disallowance.

Audit Issue #1
Materials and Supply Inventory

Background

Audit reviewed the Materials and Supplies Inventory booked to the Net Book Value Asset value Attachment RAB-1 Page 3.

Issue

The Company booked $152,775 to account 154010 for Hydro Materials and Supplies on Attachment RAB 1- Pg. 3 while the Maximo detail of the inventory was only $148,677. This is a $4,098 difference or 2.7% between the systems was within the acceptable difference to reconcile the two systems according to the Company.

Audit reviewed the February 2018 $27,098,972 that was credited to the Materials and Supplies Inventory account 154010, based on a 99.45% fossil allocation of the total $27,247,999. The Company also provided:

Maximo Report-allocated to fossil and hydro	$27,178,843
Penciled amount on page 9 Maximo report	$27,247,999
Variance	$ 69,156

The $69,156 or 0.25% difference between the Maximo report and the penciled figure (noted as the amount to book to the general ledger) on the same report was noted by the Company to be materially correct. The Company did not provide a specific detailed report of inventory materials but indicated they would provide one if they were able to create one. Audit was not provided with the support for the penciled figure. As a result, Audit recommends that the Materials and Supplies Inventory be adjusted as follows:

As reported	$27,247,999 * 99.45% =	$27,098,972
Actual Maximo	$27,178,843 * 99.45% =	$27,029,359
	Reduce filing	$ 69,613

Recommendation

The Company should reduce the $152,775 booked to account 154010 Materials and Supplies on Attachment RAB 1 Page3 with regard to Hydro Netbook Value Assets by $4,098 to $148,677.

The Company should reduce the $27,098,972 booked to account 154010 Materials and Supplies on Attachment RAB 1-Pg. 3 with regard to Thermal Netbook Value Assets by $69,613 to $27,029,359.

Company Comment

The Company does not agree with this finding. The Company correctly used the general ledger balances to record the sale of the Materials and Supplies (M&S) inventory included in each of the Thermal and Hydro asset sales.

At the time of the Thermal sale, it was necessary to determine the portion of the M&S inventory recorded to General Ledger Account 154010 that was attributable to Thermal assets versus Hydro assets. To make this determination, the Company relied upon information stored in the Company's inventory system (Maximo) because the general ledger does not maintain the technical detail necessary to identify the proper split between Thermal and Hydro assets. The technical information obtained from Maximo identified that 99.45% of the inventory was associated with the Thermal assets. Therefore, the calculation of Thermal M&S inventory for the closing journal entry used the value of $27,098,941.92, apportioning the amount recorded on the general ledger using the percentage calculated using physical inventory records stored in Maximo.

Audit Response

Audit appreciates the attachment the Company provided for Audit Issue # 1. The Attachment was for the actual contract for airspace rights over Boston and Main Railroad that relate to $128,937 booked to account 165AP0. The Company is reminded this does not relate to Audit Issue # 1 in any way.

Audit appreciates the explanation by the Company regarding the difficulty in reconciling Maximo vs the General Ledger. Audit understands the Company general ledger has system limitations that do not maintain the technical level of detail to determine thermal and hydro assets' materials and supplies inventory. The Company's general ledger system should support what is on file in the Maximo System to easily track materials and supply inventory. The Company should be able to provide a detailed inventory report of assets claimed. The Company should not have to rely on a best guess estimates to track material and supply inventory. If the Company is not able to reconcile materials and supplies inventory on what is booked to the GL when compared to Maximo this brings into question the integrity of the information entered into the Company systems.

Audit Issue #2
Scrubber Deferral

Background

Attachment RAB-1, page 4 of 13, reported the total Scrubber deferral included in the RRB to be:

6F-182P30	ES Regulatory Asset	$ 98,213,258
6F-182P40	Forgone Equity per DE 14-238	$(25,000,000)
Total Scrubber Deferrals as filed		$ 73,213,258

Issue

The 2018 first quarter revenue was not included in the calculated $98 million dollar deferral, therefore overstating the deferral by $15,140,615.

The Company was authorized to calculate a return on rate base, using the Commission approved 9.81%. Workpapers used by Deloitte in the Agreed upon Procedures included calculations of plant net of accumulated depreciation, working capital calculated at 45 days of O&M, and the calculated return. Beginning in 2013, through 2017, the annualized return rate used was in excess of 11%, the calculated "tax-adjusted return". Further, the return was calculated on the full Commission approved cost, without deducting for the foregone equity of $25,000,000 required by Order #25,920 7/1/2016. The return on rate base was recalculated by Audit to be $177,960,000, or $24,151,000 less than the filing figure.

Within the Deloitte workpapers, Audit again noted the tax adjusted rate of return from 2011 through 2015, in excess of 11%. Each monthly calculation included a sum of the operations and maintenance items, including the calculated return on rate base, net of revenue. The calculation was then made on the average cumulative net (over)/under less the calculated accumulated deferred income tax. The deferred return was then based on the prime rate of 3.25% or .2708% monthly. Audit eliminated the spreadsheet deductions for ADIT, and adjusted the rates of return. The recalculated return on the deferral was computed by Audit to be $9,122,000 vs. the $18,441,647 included in the filing, or a reduction of $9,319,647.

Recommendation

Audit recommends that the net Scrubber deferral figure of $73,213,258 be adjusted down to $49,600,000. Refer to the grid below:

		Operations and Maintenance (O&M)						Return	Return	Total
				Avoided		Property	Total	on Rate	on	ANNUAL
	Revenue	Non-fuel	Fuel	SO2	Depreciation	Tax	O&M	Base	Deferral	Under/(Over)
9/11-12/11	$ -	$ 600	$ 1,494	$ (725)	$ 3,100	$ 51	$ 4,520	$ 7,889	$ 54	$ 12,463
1/12 - 12/12	$ (31,263)	$ 2,430	$ 6,661	$ (313)	$ 15,077	$ 267	$ 24,122	$ 37,440	$ 1,158	$ 31,457
1/13 - 12/13	$ (36,972)	$ 2,741	$ 6,486	$ (2,350)	$ 15,546	$ 215	$ 22,638	$ 34,908	$ 1,958	$ 22,532
1/14 - 12/14	$ (37,230)	$ 2,339	$ 9,341	$ (2,609)	$ 15,529	$ 215	$ 24,815	$ 28,660	$ 2,763	$ 19,008
1/15 - 12/15	$ (38,896)	$ 2,005	$ 7,049	$ (1,908)	$ 15,528	$ 215	$ 22,889	$ 25,399	$ 3,189	$ 12,581
1/16 - 12/16	$ (58,861)	$ 1,621	$ 4,698	$ (491)	$ 15,566	$ 215	$ 21,609	$ 22,090	$ -	$ (15,162)
1/17 - 12/17	$ (55,705)	$ 1,527	$ 4,763	$ (215)	$ 15,573	$ 215	$ 21,863	$ 21,574	$ -	$ (12,268)
1/18 - 04/18	$ (15,140)	monthly amortization until securitization					$ (5,871)	$ -	$ -	$ (21,011)
								177,960	9,122	**49,600**

Company Comment

The Company disagrees with this conclusion. The Company has correctly calculated all amounts referenced in relation to this issue.

1. First Quarter 2018 Scrubber Revenue Not Included

Audit Staff asserts that 2018 first quarter revenue was "not included in the calculated $98 million dollar deferral, therefore overstating the deferral by $15,140,615." This is not correct for the following reasons.

In Docket No. DE 19-080, *Annual Reconciliation of Energy Service and Stranded Costs for 2018*, Attachment ELM-3 of the Company's initial filing, at pages 3 and 8, showed Energy Service revenues of $99.5 million. This amount includes 1.72 cents/kWh related to the Scrubber. This revenue was used in the calculation of the $127.9 million Net Energy Service deferral as of 3/31/2018, as shown on Attachment ELM-3 at page 8, line 10 (a copy of DE 19-080 Att. ELM-3 is included in Attachment A to this response). In addition, the Company's initial filing included the testimony of Erica L. Menard, page 7-8, which states that the scrubber portion of this amount was $99.7 million as of 3/31/2018 (a copy of Ms. Menard's testimony in DE 19-080 is included as Attachment B). Subtracting out the April 2018 amortization leaves a remaining balance of $98.2 million, which is further reduced by the $25 million of foregone equity, producing the amount securitized as shown in this filing. The remaining non-Scrubber deferral balance was transferred to Stranded Costs in April 2018, as shown on Attachment ELM-3 at page 6, line 10 of the filing.

For these reasons, reducing the amount securitized by $15.1 million, as suggested by the audit finding, will necessarily result in an equal and offsetting increase to the SCRC rate. However, the manner in which the Company applied the revenue is appropriate. Applying the revenues as suggested by this audit finding will result in a **greater** bill impact to customers as a result of collecting the SCRC under-recovery that would be created over a shorter time period.

2. Using Only the ROE Percentage to Calculate Return on Rate Base

Audit Staff asserts that:

> The Company was authorized to calculate a return on rate base, using the Commission approved 9.81%. Workpapers used by Deloitte in the Agreed upon Procedures included calculations of plant net of accumulated depreciation, working capital calculated at 45 days of O&M, and the calculated return. Beginning in 2013, through 2017, the annualized return rate used was in excess of 11%, the calculated "tax-adjusted return".

This finding is incorrect for several reasons.

First, the Company was authorized to "calculate a return on rate base, using the Commission approved 9.81%." However, the Company was not directed to use 9.81% ***as*** the "return on rate base." The rate of 9.81% is the applicable return on ***equity***, not the return on rate base. Both the Settlement Agreement and Commission decision in Docket No. DE 07-096, *Request for Approval of 2008 Energy Service Rate*, authorized a return on equity of 9.81 percent for generation assets to be used ***in the calculation of the return on rate base***, i.e., the return on equity is just one component of the return on rate base.

By longstanding Commission practice and utility ratemaking principles, the "return on rate base" is equal to the weighted average cost of capital ("WACC"). See Docket No. DE 07-096, Order No. 24,814, at 9 (copy provided as Attachment C). The Company's updated exhibits filed on November 21, 2007 demonstrate the 9.81% return on equity is only one component of the "return on rate base" calculation. Docket No. DE 07-096, Attachment RAB-2, at 6 (see, footnote 2) (copy provided as Attachment D). As shown in Attachment RAB-2, at 6, the return on rate base is 0.9326% on a monthly basis, incorporating the 9.81% return on equity, and equaling a return "in excess of 11%" annually on a tax-adjusted basis.

The Company has properly calculated the "return on rate base" or WACC consistent with the Commission's Order in Docket No. DE 07-096 in each of its Energy Service rate filings for many years. For example, in the 2016 Energy Service and Stranded Cost Recovery Reconciliation filing in Docket No. DE-17-075, Attachment CJG-4, Page 11, Line 10, shows a rate of return of 0.9385% in October 2016-December 2016 (copy provided as Attachment E). This is Q3 2016 WACC is calculated as follows using the authorized ROE of 9.81%:

	(A) Balance - LTD	(B) Capitalization Percentage	(C) Embedded Cost / Return	(D) = (B)*(C) Weighted Average Cost of Capital (WACC)	(E) = (D)/(1-STR) Tax Gross-up	(F) Tax-Adjusted Return	(G) Return by Month
Long-Term Debt	$1,053,731,656	43.1964%	4.4522%	1.9232%	N/A	1.9232%	
Total Equity	$1,385,663,570	56.8036%	9.8100%	5.5724%	9.3387%	9.3387%	
Total	**$2,439,395,226**	**100.0000%**		**7.4956%**		**11.2619%**	**0.9385%**

Statutory Tax Rate (STR) 40.330%

As shown here, the return on rate base or WACC computation results in a monthly return (shown in the right-most column) of 0.9385%, which is comparable to the monthly 0.9326% return on rate base shown on Docket No. DE-07-096, Attachment RAB-2, at 6. The WACC computation is comprised of debt and equity; therefore, the cost of debt is a variable factor in computing the return on rate base.

The equity portion of the return on rate base is grossed up for taxes. This is necessary so that the *after-tax* return will produce the allowed return on rate base. As shown in the table, the ***tax-adjusted return*** is 11.2619%.

The error in the Audit finding is two-fold. First, the authorized return on equity of 9.81% ***is not the authorized return on rate base***. The return on rate base is a composite of debt and equity and is in the range of 0.9326% on a monthly basis, as shown in Docket No. 07-096 Attachment RAB-2, page 6, depending on the cost of debt.

Second, the "annualized" return of 11% referenced by Audit Staff appropriately represents the ***tax-adjusted return on rate base*** that is applied to calculate the return on rate base. In other words, to produce a "return on rate base" equal to the WACC, it is necessary to assure revenues "in excess of 11%" to achieve that standard. As noted, this method has been approved by the Commission and used for many years as part of the Company's Energy Service filings. Therefore, the Company has properly computed the "allowed return" or "return on rate base" applicable to recoveries in this docket.

Also, please see the Memorandum of the State of New Hampshire of Utility Ratemaking Process, published April 4, 1990 (copy provided as Attachment F). This statement on utility ratemaking practices confirms that "[t]he allowed rate of return allowed is required to be not less than the utility's cost of capital." (Memorandum, at page 11). The statement also explains that "the cost of each component of capital is determined and weighted in accordance with the proportion of that component to the total amount of capital," i.e., the "allowed return" is equal to the weighted cost of capital. (Memorandum at 12).

Finally, in the testimony filed on January 26, 2016 by Dean M. Murphy on behalf of Non-Advocate Staff ("Staff") (copy provided as Attachment G), on pages 6-7, Mr. Murphy defines the Return on Rate Base and the WACC.

> The Return on Rate Base is the annual average Rate Base multiplied by the weighted average cost of capital (WACC). The WACC is based on Eversource's current capital structure (54.3% equity), its current long-term debt rate (4.47%), and its allowed after-tax equity return (9.81%), yielding a pre-tax WACC of approximately 11.0%. The costs associated with the deferred recovery of Merrimack Scrubber costs (approximately $123 million as of 1/1/2016) are recovered over 7 years beginning in 2016, and are included as components of Depreciation and Return on Rate Base during those years.

3. Deduction of $25 Million Equity Write-Off in July 2016 Instead of May 2018

Audit Staff asserts that the return was calculated on the full Commission approved cost, without deducting for the foregone equity of $25,000,000 "required" by Order No. 25,920, *on the date that the Order was issued*, or July 1, 2016. However, this conclusion is incorrect and is inconsistent with unchallenged testimony filed by the Company in support of the Settlement Agreement as discussed below. Accordingly, the reduction of the return on rate base of $24,151,000 should be eliminated.

The Order cited by Audit Staff is Order No. 25,920, issued on July 1, 2016 in Docket No. DE 14-238 (copy provided in Attachment H). In that Order, the Commission approved the "2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement" ("2015 Settlement Agreement") (copy provided in Attachment I). The 2015 Settlement Agreement was submitted to the Commission on June 10, 2015, and was subsequently amended and adopted by the "Partial Litigation Settlement Between Settling Parties and Non-Advocate Staff," filed with the Commission on January 26, 2016 ("2016 Litigation Settlement") (copy provided in Attachment J). Order No. 25,920 also approved the 2016 Litigation Settlement.

There is no statement in either settlement agreements or the Commission's Order that directs or indicates that a write-off of the $25 million of equity would occur *upon the issuance of the Order* approving the settlements, or as of July 1, 2016. If such a "requirement" existed, it would have been stated in the 2015 Settlement Agreement, the 2016 Litigation Settlement or the Commission's Order, but it is not.

The 2015 Settlement Agreement does not specify that the $25 million would be written off upon the date of the Commission's Order approving the settlement agreements. Instead, the plain language of the 2015 Settlement Agreement properly envisions that the $25 million in equity would be written off as part of the securitization process, i.e., no write-off of equity is proper unless and until the securitization is completed.

Specifically, the 2015 Settlement Agreement includes "**Section IX. Securitization of Stranded Costs.**" Section IX.A, states that "the **issuance of the RRBs** will allow PSNH to reduce its cost of capital, thereby significantly reducing rates for customers." (2015 Settlement Agreement at 27).

Section IX.C, states that "[s]ecuritization will require the expeditious prior approval by the Commission in the form of a finance order . . ." (id. at 28). Further, this section states that PSNH will make filings necessary in order to allow the Commission to issue the finance order concurrently with the Commission's approval of bids for the sale of PSNH's generating assets." (id.). Lastly, this section states that:

> The Commission will be requested, among other things, to: (i) approve the issuance of RRBs **in an amount sufficient to refinance** the unrecovered net book value of PSNH's generation assets, unrecovered deferrals, transaction costs, tax stabilization payments, employee protections, and other costs set forth herein consistent with RSW Chapter 369-B as amended by the draft legislation in

> Appendix A, **less the $25 million in deferred equity return on the scrubber** that PSNH has agreed to forego; . . . .

2015 Settlement Agreement, Section IX.C, page 28 (emphasis added).

Collectively, these references demonstrate that the write-off of $25 million in equity was to occur as part of the securitization process, as a deduct[ion] to the computation that would be made to refinance specified items on the books of the Company.

In its Order No. 25,920, the Commission expressly referenced the 2015 Settlement Agreement, Section III.D (Costs of the Scrubber), as follows:

> Effective January 1, 2016, the Temporary Rate for recovery of costs of the Scrubber shall be changed to reflect recovery of ***all costs*** of the Scrubber incurred by PSNH along with its allowed return on those costs. ***Upon approval of this Agreement by the Commission***, that rate shall be placed into PSNH's Default Energy Service rate for recovery as **a permanent rate** pursuant to RSA 378:28 and :29 ***until closing*** **on the R[ate] R[eduction] B[onds]**. PSNH's Scrubber costs include the capital and operations and maintenance expense costs of owning and operating the Scrubber, the previously-deferred costs resulting from the temporary Scrubber rate, and final contractual costs upon payment, among others. The previously-deferred costs resulting from the temporary rate level shall be included in rates based upon an amortization period of seven years.
>
> Pursuant to RSA 125-O:18 and RSA 369-B:3-a, ***subsequent to divestiture of its generating assets***, PSNH shall be allowed to recover through securitization financing all remaining Scrubber-related costs, including any remaining deferred equity return in excess of the $25 million in equity return which PSNH has agreed to forego. ***Upon closing on the RRBs***, all costs of the scrubber will be removed from Default Service.

Order No. 25,920, at 6 (quoting 2015 Settlement Agreement, Section III.D) (emphasis added) (footnotes omitted).

Thus, the plain language of the 2015 Settlement Agreement dictates the terms of cost recovery, as acknowledged by the Commission. Specifically, the Commission recognized that certain aspects of cost recovery (i.e., the Temporary Rate) would be implemented upon approval of the 2015 Settlement Agreement, and would be recovered as a permanent rate <u>until closing on the RRBs</u>.

If the parties had intended for the Company to implement the $25 million write-off upon approval of the 2015 Settlement Agreement the agreement would have said so, but it did not. The plain language of the agreement specifies that the equity would remain on the Company's books through closing on the RRBs and that the reduction would occur ***subsequent to divestiture*** in the context of the securitization order and RRB issuance.

This outcome is consistent with the Company's testimony filed previously in Docket No. DE 14-238. On July 6, 2015, the Company submitted the direct testimony of Eric Chung on behalf of PSNH, in which he explained on page 17 (Bates 73), lines 11-17, that the $25 million write-off would occur "at the time of financial closing." The testimony stated as follows:

> **Q. How does the Settlement Agreement resolve recovery of the costs of the Merrimack Station scrubber and how is that included in the customer savings calculation?**
>
> A. As part of the Settlement Agreement, the Company has agreed to forego $25 million of deferred equity return related to the scrubber investment. The total balance to be securitized will be reduced by this amount ***at the time of financial closing***. Please refer to Exhibit EHC-1 Page 4, Line 4 where the $25 million reduction in the deferral amount to be securitized has been reflected.

Mr. Chung's testimony is provided as Attachment K.

Similarly, in the Docket No. DE 17-096, *Petition for Findings of Fact and Issuance of Finance Order*, the Company provided the testimony of Christopher J. Goulding on June 15, 2017 in support of the issuance of the RRBs. In Mr. Goulding's testimony at pages 5-6, he described the arithmetic that would be used to determine the costs to be securitized. The testimony stated that those costs would include "cost and revenue deferrals" minus "$25 million in deferred equity return on the scrubber, recovery of which PSNH agreed to forego."

Mr. Goulding's testimony is provided as Attachment L.

The testimony in the securitization docket shows that the write-off of the $25 million would occur as part of the computation of the refinancing, and not as a result of the Commission's approval of the 2015 Settlement Agreement on July 1, 2016. There is no proof, statement or directive that would have the $25 million write-off occurring on that date as part of the very detailed steps that were laid out in the 2015 Settlement Agreement to accomplish the divestiture and subsequent securitization.

For these reasons, the Company properly recorded the adjustment at the time the RRBs were issued on May 8, 2018. It would have made no sense for the adjustment to have been recorded at an earlier time, because it was dependent upon the securitization order and RRB issuance, which were uncertain and undecided in July 2016.

4. <u>Removal of ADIT from the Calculation of Carrying Costs on the Deferral</u>

Audit Staff improperly eliminated the spreadsheet deductions for ADIT and adjusted the rates of return. The recalculated return on the deferral was computed by Audit to be $9,122,000 versus the Company's computation of $18,441,647, representing a reduction of $9,319,647. This adjustment is not correct.

Audit staff asserts that the tax adjusted rate of return from 2011 through 2015, in excess of 11% is improper. Audit staff asserts that each monthly calculation included a sum of the operations and maintenance items, including the calculated return on rate base, net of revenue. The calculation was then made on the average cumulative net (over)/under less the calculated accumulated deferred income tax. The deferred return was then based on the prime rate of 3.25% or .2708% monthly.

Accumulated Deferred Income Tax ("ADIT") accounts for the timing difference between book and income taxes. This timing difference results in a source (or sometimes an outflow) of funds that should be considered in the financing of the net deferral amount. The Company has included ADIT in its Commission approved Energy Service and Stranded Cost calculations for many years. Audit recommends removing the ADIT calculation, which would ***increase*** costs to customers. The Company does not agree with removing ADIT from the return calculation.

Audit Response

1. First Quarter 2018 Scrubber Revenue Not Included

Audit appreciates the references to the Energy Service docket DE 19-080. It is understood that the rolling over/under recovery of scrubber costs and associated revenues has been part of the Energy Service dockets, during which the rate per kWh was determined for the ongoing costs associated with the scrubber. It is also understood that the revenue and expense components reported in each energy service docket have not been audited. It is clear that the energy service dockets reflected the rolling over/under as a net of the scrubber authorized revenue and expense. It is unclear why the January, February, and March 2018 revenue was not included within the rolling over/under figure included in this instant docket, or in the DE 19-080 Energy Service docket. The Company provided Audit with the Scrubber calculated revenue as follows:

	January 2018	**February 2018**	**March 2018**
Energy Service Sales (KWH)	349,275,951	295,921,186	272,708,628
New Unbilled Sales (KWH)	187,334,814	149,550,398	153,889,218
Prior month reversal	(191,526,652)	(187,334,814)	(149,550,398)
Net ES Unbilled	(4,191,838)	(37,784,416)	4,338,820
Net ES Sales (KWH)	345,084,113	258,136,770	277,047,448
Scrubber Rate (cents/kWh)	1.72	1.72	1.72
Scrubber Revenue	$ 5,935,446.74	$ 4,439,952.44	$ 4,765,216.11
			$ 15,140,615.29

Audit noted the inclusion of monthly amortization recoveries of $1,474,250 for the months of January, February, March, and April 2018, which calculate to the seven year amortization of the 12/2015 reported deferred scrubber balance of $123,837,000.

The $1,474 was identified in docket DE 19-080. The seven year recovery was authorized by Order 25,920. The components of all O&M categories were not verified to detailed general ledger activity, thus it is unclear if the amortization recoveries have been part of the net expenses/revenues beginning in January 2016 as ordered.

2. Using Only the ROE Percentage to Calculate Return on Rate Base

From Order 24,814 "*We approve those changes as well as the other modifications regarding the treatment of the mercury mitigation costs, the use of a return on equity of 9.81 percent for the generation assets*…" The Order did not contemplate the application of the result of the calculation as an additional asset for the Company to recover. Rather, as correctly noted in the Company's response, the calculation of any return on rate base is simply that, a calculation used to determine if the Company is earning its allowed return, or is over-earning or under-earning. The grossing up of the return to use as the carrying charge has been impacting customers for several years.

3. Deduction of $25 Million Equity Write-Off in July 2016 Instead of May 2018

Audit reviewed all references relating to the $25 million, and agrees with the Company that the plain language does not state clearly whether or not the foregoing of the equity should have been implemented at the time of the Order, or at the time of the issuance of the rate reduction bonds. Contemplation of the carrying charge impact was not contemplated. Audit reiterates the issue, due to the carrying charge impact.

4. Removal of ADIT from the Calculation of Carrying Costs on the Deferral

Audit reiterates the issue. Compliance with the Commission Order is the sole focus of the audit work. Impact on customers is a rate-setting issue not addressed in this report.

Audit Issue #3
Regulatory Assets/Liabilities

Background

Attachment RAB-1, page 2 of 13 shows the total regulatory assets and liabilities to be $44,071,225.

Total Regulatory Assets	$ 69,584,135
Total Regulatory Liabilities	$(25,512,910)
	$ 44,071,225

Issue

Audit is aware that all debt is incurred at the PSNH level and is therefore not specific to the generation segment. The remaining generation balances at the time of the sale of the generation assets should be rolled into the distribution and transmission segments and reallocated between the two segments.

Recommendation

Audit recommends a total of $2,492,942 be removed from the filing:

Account 181	$ 829,407
Account 186RVO	$ 138,372
Account 189	$1,800,142
Account 225	$ (493,910)
Account 226	$ 218,931
	$2,492,942

Company Comment

Yes. Debt is incurred at the PSNH level as it is normal business practice to issue and refinance long-term debt instruments at the legal entity level. However, the Company disagrees that the associated issuance costs to achieve the financing are not specific to the segment levels. The financing cannot occur without incurring costs; the financing occurs at the legal entity level; therefore, the costs incurred are properly attributed at the legal entity level – there is not one without the other.

At the time of issuance, the costs associated with issuing the debt, including any applicable premiums and discounts, are allocated to the individual segments based on each segment's net asset value. This means that, at the time of each debt issuance, a portion of the issuance costs were properly attributed to each segment, including Distribution and Transmission, to follow the financing proceeds.

The Company has used a reasonable method of allocating costs to each segment that appropriately aligns the benefits experienced by each segment through their use of the proceeds. The proceeds from the debt instruments were generally used to fund generation, transmission and distribution capital expenditures as well as general working capital requirements.

Moreover, over time, the financing activity of PSNH as a whole is a function of all cash needs (including those of the generation segment over time). The debt refinancing arrangements and the specific costs to achieve those arrangements, which costs are presented in FERC Account 189, were completed with the objective of lowering PSNH's total borrowing costs in connection with the then existing indebtedness and offered significant savings for PSNH and, by extension, PSNH ratepayers.

Therefore, the Company does not agree with this adjustment since the portion of the debt issuance costs attributed to the generation segment were appropriately allocated to the generation segment at the time and are not going to be recovered from PSNH generation customers as a result of the divestiture.

Audit Response

The Company's response indicates they do not agree with Audit's recommendation due to the fact that the debt instruments were properly attributed to the generation segment at the time the debt instrument was issued. Audit does agree that the allocation was properly calculated at issuance.

However, Audit notes that supporting documentation provided during the audit shows the allocation amounts for each segment change as Intra-Company Capital distribution rates are updated. Due to fact that the Company reallocates the remaining balances as needed per the Intra-Company Capital distribution rates, Audit reiterates their recommendation that the amount of $2,492,942 be removed from the filing.

Once the generation assets were sold, the Intra-Company Capital distribution rates would have been updated to reflect a change in allocation percentages. Following precedent sent by the Company, the remaining balances at the time of the generation asset sale should been reallocated based on the new capital distribution rates.

Audit also notes that following the divestiture of the generation assets, the cash flow and loan amounts due, did not change. The debt instruments and overall costs of obtaining the loans remained the same at the PSNH level.

Audit Issue #4
Environmental Liability Insurance Premiums

Background

Attachment RAB-1, page 8 of 13 reflects total Environmental Liability Insurance premiums of $943,062

Issue

An invoice to Eversource Energy from Aon Risk Services, date 1/11/2018 in the amount of $8,000 was noted. The policy term of 1/6/2018 – 1/6/2019, through the Endurance American Specialty Insurance Company, reflects a description of "new-ocean/air cargo-marine". Audit requested the insurance binder, which demonstrated that the insurance was for a 45,000 net ton coal shipment from Puerto Nuevo, Columbia to the port at the Schiller Station in Portsmouth, to arrive on or about January 6, 2018. Eversource subsequently learned that the buyer of the Schiller Station was incurring the cost of the insurance of the coal shipment. As a result, the $8,000 insurance premium will be refunded.

Recommendation

To account for the amount to be refunded, Audit recommends the Environmental Liability Insurance Premiums be adjusted as follows:

Vendor	Description	Amount
AON Risk Services Northeast, Inc.	Pollution legal liability	$530,728
AON Risk Services Northeast, Inc.	Environmental Excess site liability	$173,336
AON Risk Services Northeast, Inc.	Refund overpayment of Excess site	$ (1,667)
AON Risk Services Northeast, Inc.	Environmental Excess site liability	$ 71,043
AON Risk Services Northeast, Inc.	Ocean/Air cargo-marine	$ 8,000
AON Risk Services Northeast, Inc.	Environmental pollution site liability	$161,621
Reported total Environmental Liability Insurance Premiums (rounded)		$943,062
Audit Recommended Adjustment		**$ (8,000)**
Audited Environmental Liability Insurance Premiums		**$935,062**

Company Comment

The Company agrees to the $8,000 reduction identified by Audit.

Audit Response

Audit concurs with the Company Comment and requests copies of the journal entry that removes the $8,000 from the deferral account. Audit understands the reduction of the $8,000 will be included in an adjustment to the filing overall.

Audit Issue #5
Administrative and General Expenses

Background

Attachment RAB-1, page 9 of 13, consists of:

O&M charges that would have been billed for all 2018	$ 8,448,271
Charges actually recovered via SCRC tracker 1/18 – 8/18	$ (713,243)
EESCO TSA Billed 1/2018 – 12/2018	$(2,275,625)
Net proposed for inclusion in SCRC excess of RRB	$ 5,459,403

Issue

The Company posted the $5,459,403 as a closing entry for the 12/2019 calendar year via journal entry:

06.12310.174RRB Misc. Current Assets-RRB	$5,549,403
6F.24000.186000 Amortization ES Deferral	$(5,459,403)

Audit requested clarification of the entry, as the attachment indicates that the $8,448,271 is an estimate of the Service Company costs that ***would have been billed*** to the Generation segment throughout 2018. Audit attempted to verify some of the O&M charges to the generation general ledger, but could not. In response to a request for clarification regarding the 2019 entries, the Company indicated: *There is no activity in the 6F 186000 account in 2018 as the stranded administrative and general (A&G) costs were not allocated to the 6F entity at that time*."

The Company further explained that in "*December 2019, using the calculated stranded A&G costs, a series of three journal entries were created to transfer the costs to the 6F 920000 account and then eventually to the 174RRB account.*
Journal Entry 362662: DR 920000 (Admin + Gen), CR 242990 (Misc Current + Accrued Liabilities)
Journal Entry 362670: DR 186000 (Misc Deferred Debits), CR 920000 (Admin + Gen)
Journal Entry 362671: DR 174RRB (Misc Current Assets – RRB), CR 186000 (Misc Deferred Debits)"

Recommendation

As a result, Audit recommends that none of the reported O&M costs be recovered through the RRB stranded cost mechanism, as they were not booked to the generation general ledger during 2018. The filing is a representation of what the costs would have been had they actually been posted during 2018.

Company Comment

There are no O&M charges directly allocated to the Generation business in 2018 per the General Ledger because the Generation business was divested. As a result, the basis for the allocation methodologies no longer existed (i.e. allocators based on gross plant assets and net income would yield negligible results). Effective January 1, 2018, the Generation business was appropriately removed from the corporate allocators.

Had shared services continued to allow the Generation segment to accept work order allocations for O&M costs, including corporate administrative and general expenses, labor, outside services, insurance, information technology, employee costs, and various payments and fees, the $8,448,271 would have been the absolute value of the allocated costs to the generation business in 2018. This is the proper estimate of costs that are stranded as a result of divesting the generation business due to the timing of regulatory lag and corporate reallocation of services within a shared services environment.

In the attachment provided to Audit (see Audit 5 2018 PSNH Allocated Charges Support 5-11-2020.xlsx), the O&M costs incurred by Eversource Energy Service Company are shown with additional detail of those costs. Consistent with Company testimony, and for ease of additional administrative burden, the Company made the decision to assess the stranded administrative and general charges at the end of calendar year 2018 once the Eversource Energy Service Company charges were known and identifiable. Included in support to Audit Staff was an analysis of the 2018 charges. There were approximately $469 million of Eversource Energy Service Company charges, of which $427 million were O&M costs, which were allocated to Eversource subsidiaries during 2018 using common or causal allocation rate methodologies that historically included the Generation business. Monthly journal entries were not recorded to reclassify these Generation business costs to the securitized Regulatory Asset because the Generation business did not exist, and it would not have been proper to establish a "payable" to each Eversource subsidiary burdened by the costs. Instead, the charges were incurred by the Eversource Energy Service Company, billed to the affiliated companies, and recorded to the General Ledger in accordance with proper accounting practices so that the affiliated companies were forced to absorb the costs that would have been charged to Generation had it still existed.

Audit Response

Audit restates the issue. As noted above: "*Monthly journal entries were not recorded to reclassify these Generation business costs to the securitized Regulatory Asset because the <u>Generation business did not exist</u>, and it would not have been proper to establish a "payable" to each Eversource subsidiary burdened by the costs. Instead, the charges were incurred by the Eversource Energy Service Company, billed to the affiliated companies, and recorded to the General Ledger in accordance with proper accounting practices* ***so that the affiliated companies were forced to absorb the costs that would have been charged to Generation had it still existed*****."** (Emphasis added by PUC Audit)

The Company, as part of the referenced "Audit 5 2018 PSNH Allocated Charges Support 5-11-2020.xls spreadsheet, demonstrates that the total $5,459,403 were expensed among:

Gross Plant Assets & Net Income (C04 Allocation Methodology) - 2020

Entity Description	Entities	LOB	Percentage			
				$	5,459,403	Stranded O&M from RAB-1, Page 9
11 CL&P - Dist	11	11100	0.2002	$	1,092,972	
1T CL&P - Trans	1T	33100	0.1741	$	950,482	
21 NSTAR Elec	21	11100	0.3141	$	1,714,798	
06 PSNH - Dist	06	11100	0.0664	$	362,504	
6T PSNH - Trans	6T	33100	0.0569	$	310,640	
41 WMECO - Dist	41	11100	0.0251	$	137,031	
4T WMECO - Trai	4T	33100	0.0492	$	268,603	
71 Yankee Gas	71	11100	0.0619	$	337,937	
2Y NSTAR Gas	2Y	11100	0.0441	$	240,760	
2B Hopkinton LNG	2B	12705	0.0024	$	13,103	
46 Rocky River	46	14100	0.0056	$	30,573	
		Total	1.0000	$	5,459,403	

Because the Service Company costs were in fact billed to other affiliated companies that absorbed the costs, unless those other affiliates' expenses have been reversed, the Company is "expensing" or attempting to collect the costs twice. There was no documentation provided that would demonstrate such reversals.

Audit recommends that any revised filing reflect the reduction of the above $5,459,403. Audit also recommends that the posting of the $5,459,403 in December 2019 be reversed, and the journal entry provided to PUC Audit.

Audit Issue #6
Schiller Mercury Boiler Removal

Background

Attachment RAB-1 page 10 of 13 reflects the costs of one workorder, SSU12D6F relating to the removal of mercury from the boilers at the Schiller Station as $48,433,022

Issue

The $1,980 paid to the town of Newington should be considered a public relations expense.

Recommendation

Audit recommends that the reported Schiller mercury boiler removal costs be adjusted:

Total proposed Schiller costs	$48,433,022
Newington disallowance	$ (1,980)
Adjusted Schiller costs	$48,410,049

Company Comment

The Company will agree to remove the $1,980 related to the payment to the Town of Newington for legal fees. This will bring the adjusted Schiller costs to $48,431,042.

Audit Response

Audit concurs with the Company Comment and requests a copy of the journal entry removing the disallowance from the deferred account. Audit understands that this disallowance will also be part of a revised filing total, to be filed in the docket.

Audit Issue #7
Other

Background

Attachment RAB-1, page 11 of 13 reflects total Other Divestiture Costs of $7,929,353.

Issue

Tax, totaling $8,004 was erroneously added to several invoices.

Audit recommends the following amounts also be removed as noted in the body of the audit report:

$ 3,706	Employee Expenses
$233,071	Towers Watson Delaware Inc
$ 44,640	Atlantic Data Security
$ 19,607	Grace Limousine
$ 4,121	JP Morgan
$ 7,703	Verrill Dana LLP
$ 2,846	Doucet Survey Inc
$315,694	

Recommendation

Audit recommends, and Eversource agrees, that $8,004 should be removed from the filing for tax. Audit also recommends $315,694 be removed from the filing, for a total reduction to Other expenses of $323,698.

Company Comment

The Company does not agree with the entire $323,698 reduction identified by Audit. The Company does agree to remove a portion totaling $60,347, related to taxes ($8,004), Atlantic Data Security ($44,640) and Verrill Dana ($7,703). Responses related to each individual component of this audit issue are provided below.

<u>Tax erroneously applied to Invoices</u>
The Company agrees to remove $8,004 related to tax that was erroneously added to several invoices.

<u>Employee Expenses</u>
Audit reviewed a selection of receipts provided supporting employee expenses for travel and meals. Audit was unable to determine if the charges were incurred due to the sale of the generation assets and recommended removing $3,706 from the

filing. The following information is provided to support the travel and meal receipts for employee Eric Chung. Based on the additional information provided below, the Company respectfully disagrees with Audit's recommendation to remove these expenses from the costs related to generation divestiture.

<u>Receipt Audit 47 Chung 9-18 Travel Receipts $96.22.pdf</u>
Taxi fare of $48.30 on 8/24/18. The closing on the sale of the hydro stations occurred on August 24, 2018. The final negotiations and closing on the hydro sale took place in Bethesda, Maryland at Hull Street Energy's office. Mr. Chung flew from Washington, D.C. to Boston Logan after the closing. This receipt is for Mr. Chung's travel from Logan Airport to his home. The remaining expenses were under $25 and therefore receipts were not required per Eversource's corporate policy.

As part of JPMorgan's auction plan approved by the NHPUC: "*We [JPMorgan] would recommend that Phase II include a presentation from management on the assets, site visits to the assets, additional follow-up discussions with management (on discrete topics as necessary I appropriate}, access to a fulsome electronic data room containing additional detail on the assets, and the opportunity for detailed due diligence ("Q&A").*" (See, <u>Staff Filing</u>, Recommendation of JPMorgan, 9/12/16 in Docket No. DE 16-817 at page 8). One or more members of Commission Staff attended each of the Management Presentations, along with JPMorgan, representatives from bidders, and Eversource staff. The receipts in question were for light breakfast snacks and/or lunches for these Management Presentations that the JPMorgan auction process required, as follows:

<u>Receipt Audit 47 Chung 6-17 Employee Expense Receipts $1403.53.pdf</u>
6-12-17 – 80.15 – Management Presentation to bidder Mallard
6-13-17 – 258.79 (lunch) – Management Presentation to bidder Redwing
6-14-17 – 65.95 (breakfast muffins, fruit) – Management Presentation to bidder Blackbird
6-14-17 - 330.25 (lunch sandwiches) – Management Presentation to bidder Blackbird
6-16-17 – 69.95 (breakfast muffins, fruit) – Management Presentation to bidder Quail
6-5-17 - 38.25 (breakfast muffins, fruit) – Management Presentation to bidder Sparrow
6-5-17 - 194.75 (lunch) – Management Presentation to bidder Sparrow
6-6-17 – 48.60 (breakfast muffins, fruit) – Management Presentation to bidder Cardinal
6-16-17 – 316.84 (lunch) – Management Presentation to bidder Quail

<u>Receipt Audit 47 Chung 6-17 Employee Expense Receipts $992.28.pdf:</u>
5-30-17 – 47.00 (breakfast muffins, fruit) – Management Presentation to bidder Albatross
5-30-17 – 303.45 (lunch) – Management Presentation to bidder Albatross
5-30-17 - 27.80 (lunch) - Management Presentation to bidder Albatross
5-31-17 - 64.50 (breakfast muffins, fruit) – Management Presentation to bidder Crane

5-31-17 - 207.84 (lunch) – Management Presentation to bidder Crane
5-16-17 – 137.89 (lunch) – Management Presentation initial dry run (JPM, Staff, Eversource)
5-24–17 – 203.80 (lunch) – Management Presentation final dry run (JPM, Staff, Eversource)

Receipt Audit 47 Chung 7-17 Employee Expense Receipts $1240.08.pdf:
6-15-17 – 217.15 (lunch) – Management Presentation to bidder Thrasher
6-20-17 – 263.78 (lunch) – Management Presentation to bidder Vulture
6-20-17 – 50.75 (breakfast muffins/fruit) – Management Presentation to bidder Vulture
6-20-17 – 64.95 (breakfast muffins/fruit) – Management Presentation to bidder Wren
6-20-17 – 335.70 (lunch) – Management Presentation to bidder Wren
6-23-17 - 46.15 (breakfast muffins/fruit) – Management Presentation to bidder Hawk
6-23-17 - 225.60 (lunch) – Management Presentation to bidder Hawk

Towers Watson expenses
Audit requested copies of the four largest invoices, totaling $216,269 or 93% of the total paid to Towers Watson Delaware. Eversource provided the actual invoices for the months of December 2017, January, February and March of 2018. The invoices note the portion that pertains to PSNH; however, Audit was unable to determine if the charges are in fact due to the sale of the generation assets. Audit recommends removing $233,071 from the filing. The additional information provided below supports the Towers Watson charges as they relate to the divestiture of the Generation assets.

The Company executed two change orders with Towers Watson requesting additional work to support the divested employees. The first change order for $102,000 was executed in November 2017 to provide participant calculations and communications for the population that is offered continued employment with the thermal buyer and will have the ability to grow into their Rule of 85 benefit after the date of the sale. This was paid in two equal installments as is shown in the December 2017 and January 2018 invoices. The supporting change order documentation was provided to Audit for review.

The second change order for $88,000 was executed in December 2017 to support the ongoing administration as documented in the Memorandum of Agreement for the divestiture of the PSNH group. Approximately 60 former employees were provided support. A fixed fee of $88,000 was paid in two installments as shown in the February 2018 and March 2018 invoices.

Additional charges identified as "Out-of-scope - Other activities" on the February 2018 and March 2018 invoices were related to the generation divestiture. These included:

February 2018 invoice: After the kits went out there was an additional request to follow up on anyone that had not responded to the communication. This included

$9,400 identified as "PSNH Case Reconciliation and Project Management" and $8,600 identified as "PSNH Data Request (Aon/Union)" for the Aon sample calculations/statements.

March 2018 invoice: $8,269.28 identified as "PSNH" on the invoice related to data queries and counts for rule of 85; data field/flag updates in BenefitConnect for tracking; Hydro data request; and data questions and updates.

The four invoices selected by audit total $216,269 out of the total of $233,071 related to Towers Watson costs. Based on the support provided, the Company believes the information provided in response to Audit's requests support the determination that these costs were related to the divestiture of the assets and therefore all of the $233,071 should be included in as these were directly related to impacted employees.

Atlantic Data Security expenses

Audit reviewed invoices for Atlantic Data Security, related to hardware and software for threat prevention such as malware, anti-bot, antivirus and URL filtering among other things. Included in the $104,262 invoice was two three-year subscriptions. The prices of the three year subscriptions were $37,200 and $29,760. Audit determined the yearly value of the subscriptions were $12,400 and $9,920 respectively and recommends removing two years of each subscription from the filing totaling $44,640.

The Company purchased security hardware to provide transition services to the thermal and hydro buyers. Along with that hardware a maintenance subscription was purchased valued at $66,960 for 3 years. The Company agrees with Audit's recommendation to remove 2 years of the 3 year subscription costs.

Grace Limousine and JPMorgan expenses

Audit reviewed invoices from Grace Limousine and JPMorgan procurement card expenses related to Grace Limousine services totaling $19,607 and $4,121, respectively. Audit recommends that these costs should not be allowed for recovery as they are deemed imprudent.

As discussed earlier in reference to Mr. Chung's expenses, the JPMorgan auction process approved by the Commission included the opportunity for selected bidders to have extensive site visits to the various generating stations located throughout the State as part of the detailed due diligence process. Eversource provided transportation to potential buyers, JPMorgan, and NHPUC Staff for site visits during the bid phase of the asset divestiture process. In order to efficiently transport the multiple parties on a strict time schedule, it was recommended by JPMorgan to hire a car service. Grace Limousine was the vendor that provided that service in the form of a bus transport with a dedicated driver. This allowed multiple parties to be transported to the multiple sites and chaperoned in the time frame needed. Eversource respectfully disagrees with the characterization that these costs were imprudent and believes that the NHPUC Staff would agree that these costs were not imprudent.

Verrill Dana LLP expenses
Audit reviewed invoice for Verrill Dana legal expenses. One of the invoices for $7,703 noted that the services provided were for the acquisition of Aquarion. Audit recommends removing these costs.

> The Company agrees with Audit's recommendation to remove the $7,703 related to a Dana Verrill invoice that was incorrectly charged to the generation divestiture.

Doucet Survey expenses
Audit reviewed an invoice from Doucet Survey in the amount of $2,846 that notes it was for the Connecticut River Wire Crossing project. Audit recommends the amount be removed as the invoice is not related to the generation sale.

> As part of the preparation for asset divestiture, surveys were conducted to prepare easement plans on all of the sites to determine what easements Eversource needed to keep after the sale of the plants. These plans were recorded at closing. The work performed by Doucet Survey was required to determine the location of the poles and wires on the Canaan Hydro property which was part of the asset divestiture. The Company respectfully disagrees with the conclusion that these costs were not related to asset divestiture.

The Company agrees to remove $60,347 in total as part of this audit issue related to taxes ($8,004), Atlantic Data Security ($44,640) and Verrill Dana ($7,703).

Audit Response

The Company agreed with Audit's findings regarding taxes, Atlantic Data Security and Verrill Dana, totaling <u>$60,347, to be removed from the filing</u>.

Audit reviewed the response the Company provided regarding employee expenses in the amount of $3,706 and Audit agrees they are attributed to the sale of the generation assets. Audit does note that based on their review of receipts submitted, the Wren presentation appears to have taken place in 6/21/2017 and not 6/20 as noted in the Company's response above. The <u>$3,706 of employee's expenses shall remain in the filing.</u>

Regarding Towers Watson; Audit reviewed the change orders totaling $190,000 provided by the Company. Based on the additional explanation above regarding the February and March 2018 invoices, Audit agrees with the Company that they are related to the divestiture of the assets. <u>The $233,071 should remain in the filing</u>.

Audit reviewed the supporting documentation previously provided for the Grace Limousine expenses another time, and notes that they do appear to be site visits. Audit will allow the $19,607 in Grace Limousine expenses to remain in the filing. Audit, however does not recommend allowing the full amount of the JP Morgan invoices to remain in the filing. The JP Morgan transportation invoices totaled $4,121. Following an additional review of the documentation it appears that $2,821 were for individual JP Morgan employees. $1,300 portion of the invoices notes it was for Eversource guests and the rates and site visits align with the other Grace Limousine invoices paid directly by Eversource. Audit recommends removing $2,821 from the filing.

Audit reviewed the Company's response above regarding the $2,846 charge from Doucet Survey and will allow the expenses to remain in the filing.

Audit's revised recommendation, following the review of the Company's response to the audit issue, is to remove a total of $63,168 in Other Divestiture Costs from the filing.

Audit Issue #8
Net Present Value of Accumulated Deferred Income Taxes

Background

Attachment RAB-1 page 12 of 13 reflects the estimated excess accumulated deferred income taxes to be $(64,050,569)

Issue

State estimated accumulated deferred income taxes related to Generation were estimated from 2018 through 2022 to be $1,330,508 based on the reduction in the state Business Profits tax rate from 8.2% to 7.9%. The tax rate dropped to 7.7% for 2019 and 2020. The rates per the NH DRA were estimated for 2021 and thereafter to be between 7.5% and 7.9%.

Deferred Tax Schedules beginning with estimated balances at 12/31/2017 were based on depreciable plant for Federal tax purposes $53,689,102 at 24.1 yr. life; non-plant, non-depreciable for Federal tax purposes at a 5 yr life $12.653,923; depreciable and non-depreciable for state purposes for 5 years $1,330,508. Because the depreciable plant for tax purposes will change as a result of the recommended adjustments throughout this report, the resulting calculation will also need to be adjusted.

Recommendation

A recalculation of the net present value adjustment was not performed by PUC Audit. The recommended adjustments throughout this audit report will impact the resulting accumulated deferred income taxes and related net present value calculation. Until each adjustment is adjusted out of the rolling balances, the recalculation cannot be accomplished.

Company Comment

If any of the issues from the audit report result in a reduction to the stranded costs being recovered, and it's determined that the specific change has a corresponding impact on accumulated deferred income taxes, then the Company will update the accumulated deferred income taxes, NPV, and excess ADIT.

Regarding the state income tax rates, the original estimated state ADIT reflected 7.9% which was the statutory tax rate in effect in 2018. Subsequently, the state tax rate changed to 7.7% for the year 2019 and 2020. It is uncertain at this time the exact tax rate for the years 2021 and 2022 as the state must meet certain revenue estimates to either increase or decrease the tax rate. The Company proposes to update the state ADIT calculation to reflect the current 7.7% tax rate in effect.

Audit Response

Audit concurs with the Company Comment overall, and encourages the Company to recalculate the ADIT, NPV, and excess ADIT with all of the recommended adjustments noted throughout this report. Adjusting entries to the tax related items in the filing should be provided in a revised filing, as well as copies of actual adjusting entries provided to Audit within two weeks of issuance of this Final Audit Report.

Audit Issue #9
Issuance Costs

Background

Attachment RAB-1 page 13 of 13 reflects 24 specific lines relating to issuance costs. Summarized, they were identified as:

Funds paid prior to closing	$1,818,169
Funds paid at closing	$4,988,485
Funds paid after closing	$ 865
Total Issuance Costs per RAB-1 page 13	$6,807,520

Issue

The Funds paid prior to closing, $1,818,169, are overstated by the Deloitte accrual in account 181700 of $206,780. The Company identified the inclusion of the accrual: "*In preparing the response to this audit request it was determined that the $206,780 in Deloitte costs should not have been included in the securitized costs.* ***An adjustment will be made to the 174RRB account to reflect this adjustment."***

Recommendation

Audit recommends that the Issuance Costs be adjusted by the overstatement of the accrual:

As filed	$6,807,520
Adjustments	$ (206,740)
Adjusted Total	$6,600,780

Company Comment

The Company agrees with this audit finding and will remove the $206,780 from the final stranded cost amount.

Audit Response

DE 16-817 Audit Report issued July 21, 2017

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 21, 2017
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor

SUBJECT: Public Service Company of New Hampshire (PSNH) d/b/a Eversource Energy
Docket DE 16-817 Auction of Electric Generation Facilities
FINAL REPORT

TO: Tom Frantz, Director Electric Division
Les Stachow, Assistant Director Electric Division
F. Anne Ross, General Counsel

INTRODUCTION

The PUC Audit Staff was asked to review the quarterly costs submitted in docket DE 16-817 in relation to the removal of two retired mercury boilers located at the Schiller Station. Order #25,956, issued on 10/21/2016 included the following:

In the report filed by Staff on September 12, 2016, JPM expressed its preliminary recommendation for removal of the mercury boiler at Schiller. Rather than paraphrase, we quote in full from the recommendation:

> *J.P. Morgan understands that there are* ***two retired mercury boilers located at the Schiller facility that are no longer in operation, but that may contain residual amounts of mercury.*** *The Commission has asked J.P. Morgan to provide its view on whether it is in the best interest of the auction process to undertake a removal of the mercury boilers and all associated equipment in advance of or in conjunction with the auction process. Based on the information it has available to it to date, J.P. Morgan's preliminary recommendation is to undertake removal of the mercury boilers and all associated equipment in conjunction with the process such that the removal can be either complete or substantially complete at the expected time of closing any transaction(s) at the conclusion of the auction process. (page 3)*
>
> *Based on the information that has been provided to J.P. Morgan by the Commission and Eversource to date, J.P. Morgan understands that undertaking the removal in conjunction with undertaking the auction process will not impede the execution of the auction process. In particular, J.P. Morgan understands, based on conversations with the Commission and Eversource:*

- *Eversource has conducted a competitive RFP process for the removal project and received at least two responses from reputable parties that it views as viable alternatives for the removal;*
- *Removal project will not interfere materially with the operations of the Schiller facility and that the Schiller facility will be able to operate in normal course during the removal project;*
- *Eversource estimates the removal project would take approximately nine to twelve months, meaning it would likely conclude on a similar timeframe to the conclusion of the auction process if undertaken in the near term;*
- *Removal project unlikely to interfere with parties' ability to conduct due diligence on the Schiller facility and its operations. (page 4)*

Staff

Staff sponsored the filing of the JPM Recommendation; furthermore, Staff joined in the following stipulation presented in a September 21, 2016, letter (Stipulation): In accordance with [JPM]'s recommendation, Eversource is authorized to begin removal of the two mercury boilers and associated equipment located at Schiller Station pursuant to a contract with the contractor selected by Eversource following their bidding process, with Staff to oversee the contract process. Removal is estimated to cost $20-$30 Million and is projected to take 9-12 months to complete. Eversource shall provide monthly reports to Staff and shall notify Staff of any proposed increase in the contract costs prior to authorizing the contractor to incur additional costs. Staff will bring any substantial changed circumstances concerning the cost or progress of this removal to the Commission's and other parties' attention. All prudently incurred costs of the contract shall be considered stranded costs following the closing of the divestiture auction, and recovered by Eversource as part of the Stranded Cost Recovery Charge. (pages 4-5)

Audit Summary

Audit appreciates the cooperation provided by Christopher Goulding, Manager Revenue Requirements-NH and David Packard, Senior Sourcing Agent-Procurement, both of Eversource Energy.

Audit was informed by the Company that the costs incurred regarding the removal of the two boilers are being recorded in FERC account 186670, in work order SSU12D6F.

The original request for proposal regarding the dismantling work was issued on 9/25/2015. Manafort Brothers was selected based on the highest score using the bid criteria established prior to the issuance of the RFP.

The boilers, Schiller units 1 and 2, were retired and removed from the Plant in Service accounts in March 1968.

Quarterly Reports of Incurred Costs

REPORT

	10/2016	11/2016	12/2016	1/2017	2/2017	3/2017	Total a/o 3/2017
Labor	$ -	$ 34,510	$ 34,490	$ 34,463	$ 31,022	$ 32,376	$ 166,861
Employee Exp	$ -	$ 230	$ 243	$ 105	$ 225	$ 254	$ 1,057
Materials/Supplies	$ -	$ 9,889	$ 183	$ -	$ -	$ -	$ 10,072
O'Connor Corp	$ 23,000	$ 33,058	$ (149)	$ -	$ -	$ -	$ 55,909
William Scotsman	$ -	$ 4,993	$ 1,510	$ 1,510	$ 1,510	$ 1,510	$ 11,033
Mohlin	$ -	$ 10,100	$ 1,838	$ 12	$ -	$ -	$ 11,950
GZA Geoenvironment	$ -	$ 23,000	$ 33,809	$ 51,358	$ 39,130	$ 59,349	$ 206,646
Ayer	$ -	$ 46,941	$ (11,238)	$ -	$ -	$ -	$ 35,703
Manafort	$ -	$ 680,010	$ 886,262	$ 1,086,678	$ 240,929	$ 2,065,674	$ 4,959,553
interest	$ 46	$ 1,775	$ 5,350	$ 9,588	$ 12,558	$ 17,497	$ 46,814
monthly rpt total	$ 23,046	$ 844,506	$ 952,298	$ 1,183,714	$ 325,374	$ 2,176,660	$ 5,505,598

Audit verified the total reported costs and interest, in the amount of $5,488,101 to the general ledger. The variance between the ledger and the reported total above is the March 2017 interest, which was booked in April 2017.

Labor $166,861

Audit verified the labor totals reported from November through March to the detailed general ledger account 186670. Included within the ledger were:

Labor		
	Labor L11	$ 53,412
	Labor L12	$ 42,430
	Labor OT L22	$ 2,427
	Labor	$ 98,269
Loaders		
	NPT (ZNP)	$ 16,954
	Benefits (ZPB)	$ 27,229
	GSCOH (ZGS)	$ 19,606
	Vehicle (ZVE)	$ 4,803
	Loaders	$ 68,592
Total Labor		$166,861

The Company, in response to a request from Audit, provided the calculations for all applicable Loaders for each month. There were no exceptions noted.

Audit requested the summary of the loaders, and the manner of calculating each, as well as the percentages used for the period under review. The Company provided the following:

EESCo Labor (code 61)	11/2016	12/2016	1/2017	2/2017	3/2017	Calculation Method
ZNP	17.39%	17.39%	18.57%	18.57%	18.57%	Applied to EESCo Labor
ZGS	61.97%	61.97%	67.50%	66.58%	66.58%	Applied to EESCo Labor and ZNP Labor
ZVE	1.67%	85.00%	6.00%	4.87%	15.38%	Applied to EESCo Labor
PSNH Labor (code 6F)						
ZNP	17.21%	17.21%	16.70%	16.70%	16.70%	Applied to PSNH Labor
ZBP	31.46%	31.46%	32.95%	32.07%	32.07%	Applied to PSNH Labor and ZNP Labor
ZVE	4.59%	3.43%	5.88%	5.58%	4.93%	Applied to PSNH Labor
ZST	16.00%	16.00%	n/a	n/a	n/a	Applied to Inventory
ZST True-up	n/a	-7.37%	n/a	n/a	n/a	Applied to Total Inventory

Summary of the calculations as provided by the Company:

- ZNP-Non-productive time is calculated based on twelve months' non-productive labor / twelve months' productive labor, calculated monthly. (EESCo and PSNH calculated individually)
- ZGS-General Services Overhead is calculated based on budgeted EESCo benefits and overhead costs / budgeted EESCo labor. (EESCo only)
- ZVE-Vehicle Loader is calculated based on actual monthly vehicles costs / actual labor. Vehicle costs by Company are allocated to groupings of cost control centers that use similar vehicles. The grouped cost is then allocated to work orders based on where the actual Labor in those cost centers was charged for the month. (EESCo and PSNH calculated individually)
- ZBP-Benefits Loader is calculated based on budgeted Operating Company (PSNH) benefit costs / budgeted PSNH labor costs
- ZST-Stores Loader is calculated based on estimates, and how well the estimated rate has cleared the Stores Clearing account in prior periods. (PSNH only)
- ZST True-up quarterly, any dollars in the Stores Clearing account are spread to all users of the storeroom, pro rata.

Audit selected the month of January 2017 to review the labor charges, as that month included each of the three labor cost types. Labor represents those hours incurred by employees of the Eversource Energy Service Company (EESCo, identified by intercompany code 61 on the detailed general ledger) and PSNH (identified by intercompany code 00). For January, the costs were identified as:

	EESCo (61)	PSNH (6F)
Labor (L11)	$4,921.23	$6,369.92
Labor (L12)	$ -0-	$8,900.32
Labor OT (L22)	$ -0-	$ 59.90

Audit was provided with the timesheets for five specific employees for the month of January 2017. The hours worked were identified by work order, and Audit was able to verify the hours for the month for which work done relating to the Schiller project. The employees were:

1-Station Mechanic at Schiller, a member of the IBEW for whom a $1.25 increase in regular hourly wage was verified to the union contract, based on being designated in charge;

2-Maintenance Supervisor at Schiller Station;

3-Environmental Coordinator (EESCo)
4-Manager Cost Risk and Site Management (EESCo)
5-Station Electrician at Schiller Station

The overhead loaders for the month of January 2017 were recalculated by Audit and verified to the detailed general ledger:

	EESCo	PSNH	Total to GL
ZNP	$ 914	$2,560	$ 3,474
ZGS	$3,939	$ -0-	$ 3,939
ZBP	$ -0-	$5,895	$ 5,895
ZVE	$ -0-	$ 904	$ 904
	$4,853	$9,359	$14,212

Employee Expenses $1,057

Audit verified the reported employee expenses of $1,057 to the detailed general ledger. Expenses were comprised of:

Miscellaneous Expenses (E11)	$ 109
Mileage (E14)	$ 948
Total Employee Expenses	$1,057

The Miscellaneous Expenses represented lunches, and Mileage represented expenses incurred for travel to and from the Commission as well as the Schiller Station, primarily from the PSNH headquarters in Manchester. Further review was not conducted due to the immateriality of the expenses to date.

Materials and Supplies $10,072

The reported Materials and Supplies figure was verified to the detailed general ledger for the following entries:

JP Morgan Procard	$ 8,369
Inventory	$ 1,568
Stores Loader (ZST)	$ 135
Total Materials and Supplies	$10,071

Audit selected two items charged to the procard for detailed review. One in the amount of $2,108 was for a transformer. The amount was verified to an invoice from Electrical Wholesalers Inc. dated 11/8/2016. One in the amount of $2,070 was verified to an invoice from Electrical Wholesales Inc. for cable, dated 11/11/2016. Both purchases were used to provide temporary power for the boiler removal project, according to Eversource.

CONTRACTORS

Audit requested clarification of the contractors hired for the boiler removal, and a general understanding of the areas of responsibility for each. Below was provided:

O'Connor Corp. provided initial site logistics support, and will be used again at the end of the project for post-demolition restoration. $55,909 has been paid as of 3/31/2017.

Williams Scotsman (WS) provides temporary office trailers and storage units for the project for both Manafort Brothers and Eversource. $11,033 has been paid as of 3/31/2017.

Mohlin & Co. provided structural analysis and design modifications to re-support piping and conduit/cable trays attached o equipment identified for removal. $11,950 has been paid as of 3/31/2017.

GZA Geoenvironmental provided the project engineer and onsite oversight on behalf of Eversource. GZA has been paid $206,646 as of 3/31/2017.

Ayers Electric, Inc. provided pre-demolition electrical identification and isolation activities to allow for the boiler dismantling to be completed safely and to set-up temporary power feeds for the project. $35,703 has been paid as of 3/31/2017.

Manafort Brothers, Inc. (MBI) $4,959,553 a/o 3/31/2017

Manafort Brothers, Inc. (MBI) is the general contractor for the demolition, and disposal of the mercury vapor power units 1 and 2 at the Schiller Station. Subcontractors were identified as:

- Absolute Environmental (AE) provides asbestos abatement support for units 1 and 2 and associated ducts, piping and cables via MBI
- Safway provides scaffolding and temporary personnel protection equipment via MBI
- Alliance provides safety oversight via MBI
- Minerva Enterprises provides asbestos waste removal services via MBI
- Schnitzer's provides scrap metal removal services via MBI
- Waste Management (WM) provides construction and debris removal services via MBI
- Chemical Waste Management (CWM) provides hazardous mercury metal and mercury asbestos debris removal services via MBI
- Stablex provides hazardous mercury metal, mercury asbestos, and mercury ash with no visible Hg debris removal services via MBI
- Bethlehem Apparatus Co. provides metal, insulation and ash with visible Hg for retort removal services via MBI
- Global Cycle provides non-RCRA waste water removal services via MBI

Audit requested clarification regarding any MBI mark-up to subcontractor invoices. Eversource indicated that the MBI contract is based primarily on fixed price work scopes. As such, any subcontractor work supporting the specific fixed price scopes is not billed to Eversource other than through the fixed price. Any per unit disposal cost is based on the contracted price per unit. Therefore, MBI does not mark-up subcontractor billings.

Audit requested and was provided with the Manafort contract dated 4/12/2016, as well as copies of the blanket purchase order (#02282392) dated 5/18/2016, authorized by the Senior Sourcing Agent in the Eversource Procurement division, and the blanket purchase order with the formal notice to proceed, dated 10/26/2016. Due to the date of Commission authorization, the notice to proceed was delayed until 10/2016.

Attachments to the 4/12/2016 contract included:
Exhibit A-general terms and conditions
Exhibit B-special terms and conditions,
Exhibit D-pricing terms for labor and equipment, updated 10/2016
Exhibit E-technical requirements including:
- E-1 scope of work 12/2016
- E-2 addendum to scope of work 10/2015
- E-3 addendum to scope of work 4/2016
- E-4 boiler data sheet (original property record) 4/1967
- E-5 MBI disposal sites
- E-6 Schiller office plan with saved offices
- E-7 schedule of values
- E-8 NH PE license
- E-9 draft work plan

Exhibits C, F, and G were reserved.
Exhibit H- Owner's Safety, Health, and Environmental documents

General terms and conditions outlined routine contract items such as definitions, billing rates, taxes, changes and additions to the scope of work, agreement to exchange information electronically, delays, inspections, insurance, confidentiality, warranties, arbitration, limitation of liability, among others.

Special terms and conditions were attached to the overall contract as Exhibit B and included substantial completion if owner selects a ten month completion schedule or twelve month completion schedule (ten month was selected). Failure to meet the completion date shall result in liquidated damages of $5,000 per day. Contractor must post payment and performance bonds. Audit was provided with a copy of the bond cover sheet evidencing issuance of the bond through Western Surety Company, in the amount of $18,000,000 dated 11/7/2016. Invoicing for fixed price scope will be monthly for lump sum milestones and monthly for per unit items, both of which must reflect a 5% retainage, payable to the contractor at the final completion of the work. Asbestos abatement will be performed by subcontractor Absolute Environmental, and an environmental survey by TRC.

Exhibit D reflected the fixed and unit cost for 36 specific types of work required for the removal project. The pricing form, identified as exhibit D of the contract was amended to reflect the delay in the notice to proceed, however the overall $18 million did not change.

Change Orders

Audit requested a list of Change Orders since the original contracts had been signed and was informed that there have been four since 10/2016. One of the four was withdrawn, as it had been for staging that was determined to be unnecessary.

Change Order 2 was submitted 2/2/2017 to Eversource relating to additional negative air machines. The Order was for labor, equipment, and materials to provide eight negative air machines to provide mercury ambient air removal from the general plant areas for added employee and visitor protection. The anticipated cost of $10,920 for a seven month rental period is within the scope of the original contract value of $18,000,000. The change was approved by Eversource on 4/10/2017.

Change Order 3, submitted on 2/3/2017 and approved on 4/10/2017 was for a new unit price associated with the Bethlehem Apparatus mercury disposal. The change provided for a more cost effective disposal through the use of packaging material for retort in cubic yard boxes vs. drums. The change is within the original contract value of $18,000,000.

Change Order 4, submitted on 3/28/2017 and approved on 4/10/2017 reflected an adjustment of unit rates for disposal of low and high subcategory mercury waste due to the fact that the disposal facilities being utilized only classify the material as hazardous, not low and high subcategory due to the material meeting the RCRA definition of debris. This Change Order includes averaged low and high subcategory disposal unit rates for Mercury Debris with ACM adder ($1,051/ton); Mercury Debris with ACM adder with PCBs ($1,153/ton); Mercury Debris ($1,004/ton); and Mercury Debris with PCBs ($1,223/ton). The cumulative contract value of $18,000,000 was unchanged due to this Order.

A change order request and authorization form relating to time and materials was provided while onsite. The change, requested 5/23/2017 (after the 3/2017 audit) defined the unit rate for disposal of hazardous liquids, noted on the original and amended pricing sheet with no associated unit rate. There was no overall change to the $18 million contract total.

Manafort invoice test

Audit selected three specific invoices identified within the general ledger as vouchers.

December 2016	$ 646,009.12
January 2017	$1,093,631.17
March 2017	$ 959,823.20
Total Tested	$2,699,463.49 or 54% of the total Manafort a/o 3/31/17

December 2016 $646,009.12 was verified to an application and certificate for payment, draw #1 dated 11/28/2016. The certificate demonstrated:

total contract amount	$18,000,000.00
progress payment #1	$ 680,009.60
less 5% retainage	$ (34,000.48)
net request for payment	$ 646,009.12

Audit was provided with the screen-print of six levels of authorization for release of the payment, as well as the detail behind the progress payment demonstrating the work accomplished to date. The payment detail was verified to the October 2016 price schedule for fixed costs without exception.

January 2017 $1,093,631.17 was verified to an application and certificate for payment, draw #2 dated 12/30/2016. The second draw demonstrated:

total contract amount	$18,000,000.00
completed to date	$ (1,831,200.32)
less 5% retainage	$ (91,560.03)
completed less retainage	$ 1,739,640.29
less payment #1	$ (646,009.12)
net request for payment	$ 1,093,631.17

Audit was provided with the screen-print of five levels of authorization for release of the payment, as well as the detail behind the progress payment demonstrating the work accomplished to date. The payment detail was verified to the October 2016 price schedule for fixed costs and per unit costs without exception. Audit requested clarification of the invoice inclusion of bond and insurance costs, and was referred to the Performance Assurance portion of the contract with Manafort. The Company then reviewed the invoice, and informed Audit that the "*vendor had mistakenly charged the Company a 10% overhead and profit mark up on the charges, which is inconsistent with the terms of the contract. The vendor has been notified and will be providing refunds on the next month's bill for $12,587.50 related to the Performance and Payment Bond and $8,405.93 related to the Contractor Pollution Liability Insurance*." The total represents $20,993 overcharged.

March 2017 $959,823.20 was verified to an application and certificate for payment, draw #3dated 1/31/2017. The third draw demonstrated:

total contract amount	$18,000,000.00
completed to date	$ (2,841,540.53)
less 5% retainage	$ (142,077.04)
completed less retainage	$ 2,699,463.49
less payment #1 and #2	$ (1,739,640.29)
net request for payment	$ 959,823.20

Audit was provided with the screen-print of five levels of authorization for release of the payment, as well as the detail behind the progress payment demonstrating the work accomplished to date. The payment detail was verified to the October 2016 price schedule for fixed costs and per unit costs without exception.

<u>Interest $46,819</u>

Monthly interest applied to the ongoing costs incurred is based on the stipulated rate of return with a 60/40 debt/equity ratio, a return on equity of 8%, and Eversource's current cost of debt. Eversource recalculates the rate quarterly. Audit requested the rate calculation of the interest used for January through March 2017 and was provided with the following:

	[A] Capitalization Percentage	[B] Embedded Cost Return	[C] Weighted Avg [A]*[B]	[D] Tax Gross-up [C]/(1-STR)	[E] Tax Adjusted Return	[F] Return by Month
Capitalization-						
Long Term Debt	60%	4.45%	2.67%	n/a	2.67%	
Equity	40%	8.00%	3.20%	5.363%	5.36%	
Total	100%		5.87%		8.03%	0.67%

STR Statutory Tax Rate = 40.33%

Interest is calculated on the monthly average balance, minus the calculated tax impact, resulting in an adjusted net average balance. Audit recalculated the interest for the months of January through March without exception. Interest is booked to the general ledger in the month following the month for which the calculation is made, with the offsetting credit booked to account 431400, Other Interest Expense. **Audit Issue #1**

<u>Calculated Tax Impact at 40.33%</u>

Audit requested clarification of the calculated effective tax rate reflected in the monthly reports of 40.33%. The Company provided: ((35% * (1-8.2%) + 8.2) = 40.33%

Federal Tax Rate 35%
NH Business Tax Rate 8.2%

The reported tax impact of the investment as of 3/31/2017 was $(1,766,133) which was calculated based on the average balance for March 2017:

Beginning	$ 3,299,622 excluding interest
Ending	<u>$ 5,458,784</u> excluding interest
Average	$ 4,379,203 excluding interest
Tax impact	<u>$(1,766,133)</u>
Net Investment	$ 2,613,070
*interest 0.67%	$ 17,497 interest calculated on net investment booked to the general ledger in April 2017.

Audit verified with the Company that the interest calculation, on the balance net of the tax impact, is consistent with other regulatory asset accounting for carrying charges.

Summary

A review of the costs associated with the Mercury Boiler Removal Project through March 2017, $5,505,598 indicated that the total was overstated by $20,993 plus related interest. The overcharge represents 0.4% of the costs through March, and will be refunded to the Company.

Audit Issue #1 DE 16-817
Accounting for Interest

Background

Eversource is accumulating the expenses incurred with the removal of the mercury boilers in a deferred debit account, and applying interest on the balance on a monthly basis.

Issue

The interest is debited to the deferred account, and credited to Other Income Expense, account 431400, reducing the income expense.

Recommendation

Audit recommends that the Company reflect the interest as a revenue source, accounting for it more appropriately in either the Allowance for Borrowed Funds used during Construction-Credit, #432, or other income account. A reduction to an expense account is the incorrect accounting treatment, although Audit understands that the recommendation does not impact the net utility operating income, or the net income.

Company Comment

The position of the Company is that crediting the carrying charge on the balance of the deferred account associated with the mercury boiler removal project to the 431400 account is a reasonable accounting treatment. The project is not a routine capital project that would incur carrying charges at the AFUDC rate during the construction period. The project is a removal project and effectively an expense project that is being booked to a regulatory asset to be recovered as part of the divestiture. Recording the carrying charge in the 431400 account provides an offset to the interest expense portion of the carrying charge that is being incurred to finance the removal project. The Company agrees that the recommendation does not impact the net utility operating income or net income.

Audit Response

Audit appreciates the Company Comment. While the reasoning behind the booking is understood, it does not comply with FERC. However, given the limited circumstances for which the project has been undertaken, as well as the small amount of the interest, the Company's accounting for this project's interest only is reasonable. As noted in both the Recommendation and Company Comment, the current accounting treatment, as well as the recommended accounting treatment, do not change the net utility operating income or net income.