

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: April 9, 2021
AT (OFFICE): NHPUC

FROM: PUC Audit Staff

SUBJECT: Pennichuck East Utility, Inc. (PEU)
FINAL Audit Report – DW 20-156

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

INTRODUCTION

Pennichuck East Utility, Inc. (PEU) filed for a rate increase on November 23, 2020, using a test year ending 12/31/2019. The PUC Audit staff has conducted an audit of the books and records for compliance with the PUC Chart of Accounts and previous Commission Orders.

Audit appreciates the assistance provided by Carol Ann Howe, Jay Kerrigan, and Lori Douglas.

Ownership

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

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

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

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

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

The city financing costs of \$150,570,000 were allocated to affiliate equity accounts. PWW allocation was reduced by the \$5,000,000 Rate Stabilization Fund (detailed in the Order). As of 1/25/2012, closing date of the transaction, the financing was verified to the following accounts, and Audit has updated the balances using the general ledgers of the three companies as of 12/31/2019:

	<u>Initial Entry</u>	<u>Balance 12/2019</u>
PWW 211000-2000-001 Addtnl Pd in Capital	\$127,688,435	\$106,951,795
PWW 131350-2000-001 Rate Stabilization Fd	\$ 5,000,000	\$ 587,010
PAC 201100-6000-001 Common Stock	\$ 100	\$ 100
PAC 211000-6000-001 Addtnl Pd in Capital	\$ 2,506,739	\$ 1,899,596
PEU 201100-7000-001 Common Stock	\$ 100	\$ 100
PEU 211000-7000-001 Addtnl Pd in Capital	\$ 15,904,329	\$ 11,428,201
PEU 219000-7000-001 Other Comp. Income	<u>\$ (529,702)</u>	<u>\$ (212,036)</u> debits
	\$150,570,001	\$120,654,766

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

PWW 186100-2000-001 Acquisition Premium MARA	\$64,741,956
PAC 186100-6000-001 Acquisition Premium MARA	\$ 1,186,226
PEU 186100-7000-001 Acquisition Premium MARA	<u>\$ 7,366,833</u>
Total MARA as of 12/31/2019	\$73,295,015

Amortization of the MARA was credited to account 186100 and debited to account 407100 Amortization: Acquisition Premium which, for PEU, reflected a total for

the 2019 test year of \$213,318. Refer to the Deferred Debits portion of this audit report for further information regarding the PEU Acquisition Premium. The MARA figure was noted as part of a proforma on the filing schedule 2.

Management Service Agreement

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

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

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

Audit noted that an updated agreement dated June 13, 2007 had been provided to the Commission. Reference to Pennichuck Corporation was identified therein as PCP, reference to leasing the facilities at 25 Manchester Street from HECOP III LLC was noted, Appendix A was updated with narratives explaining the cost sharing

methodologies, and an Appendix B which reflected the format to be used in the calculations. Audit verified that the allocations included in the test year comply with the Appendix B format.

Allocation Factors

Calculations of the allocations among the Pennichuck affiliates were included within the filing, Tab 34, Bates pages 000477 – 000487. Audit verified the calculations and determined that the PEU expenses were booked to the general ledger accounts noted.

Allocation of Corporate Costs \$296,836

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

Allocation of Return on Common Assets \$1,075,505

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

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

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

Allocation of Management Fee \$8,470,160

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

The allocations were verified to detailed Excel spreadsheets included in the filing. Included within the calculation of allocable return on common assets, Audit noted that \$38,030 of the total \$789,010 Deferred Supplemental Executive Retirement Plan (SERP) was allocated among the regulated affiliated. See the Filing, Tab 34 Bates page 483. SERP should be paid by Shareholders rather than ratepayers. This allocation was noted within the Tier 1 spread, and for PEU at 20.71% represents \$7,876. PAC amounted to 1.5%, or \$570 and for PWW at 77.78% \$29,580. **Audit Issue #1**

Dockets since the Prior Rate Case

PEU’s last full rate case docket DW 17-128 was for test year 2016. Since that time, the following dockets and related Orders have been issued, up through 12/2020:

DW17-003	25,988	2/8/2017	modify franchise boundaries Litchfield between PEU and MWW
DW17-036	26,026	6/16/2017	authorization to cross Merrimack River in Litchfield and Merrimack
DW17-055	26,006	4/19/2017	authorized to borrow up to \$3,215,000 from SRF for 20-30 yrs at ~2%
DW17-059	26,013	4/28/2017	grant motion to waive competitive bid Puc1905.04 for legal counsel in anticipation of upcoming rate case
DW17-071	26,049	8/23/2017	approve special contract PWW with PEU
DW17-128	26,074	11/16/2017	suspend tariff and set prehearing conference for 12/20/2017
DW17-119	26,076	11/17/2017	approval of a new method by which PEU and PWW will collect the cost of the MSDC
DW17-157	26,117	3/30/2018	approve loan and line of credit CoBank, refinance intercompany loan from Pennco
DW17-128	26,136	5/31/2018	approve temporary rates for bills rendered as of 1/8/2018
DW 18-090	26,152	6/26/2018	suspend small diameter private fire protection non-metered service through 9/27/18 pending order
DW18-101	OON	8/23/2018	proposal to install 1.1 million gallon storage tank on PEU land in Londonderry, charge Pillsbury Realty Development 51% of \$2.8M cost for tank
DW17-128	26,179	10/4/2018	approval of permanent rate change, allows 5 yr average test period for rate setting rather than single test year, \$980k of RSF approved
DW17-128	26,179	10/4/2018	use of CBFRR, MOERR, DSRR1.0-see page 10 of Order , QCPAC 3 criteria, dividend restriction remains
DW18-132	26,189	11/6/2018	approve up to \$4,240,000 SRF for 3 projects in Locke Lake system
DW17-128	26,194	11/27/2018	suspend tariff proposed for 11/5/18 for 3 months to review calculation of recoupment between temporary and permanent rates
DW18-189	26,211	1/18/2019	add cost of federal income tax associated with CIAC to contributor
DW18-090	26,213	1/24/2019	NISI order effective 2/24/19 for rates/terms re fire protection services installations and grandfathering
DW17-128	26,222	2/26/2019	approve recoupment of revenue between temporary and permanent rates (\$ varies by location), approved rate case expense recovery
DW18-101	supplemental oon	4/12/2019	request for special Contrat with Woodbury Commons, now proposing 1.1 million gallon tank on PEU land in Londonderry-phc 5/7/19
DW 19-069	26,253	5/22/2019	authorized to borrow \$1,297,379 from CoBank to replace Short Term debt line of credit
DW18-101	26,285	8/9/2019	approve special contract w Pillsbury Realty Development LLC for Woodmont Commons Londonderry, and contribution in aid of construction related to the -1.1M gallon tank
DW 19-035	26,313	12/6/2019	NISI implement 1/6/2020 QCPAC 2.98% surcharge
DW 20-081	26,418	10/29/2020	approval of \$800,122 from CoBank to replace short-term debt with a line of credit, and renew existing line for 3 more yrs. Bifurcate financing so PUC staff can investigate
DW 20-156	26,436	12/17/2020	suspend tariff, PHC 1/27/2021

Rate Filing and Annual Report

Audit verified the 2019 PUC Annual Report to the summary general ledger and the original filing in DW 20-156, made on 11/23/2020. In response to Staff Data Requests, set 1, received on 3/10/2021, some of the filing schedules were updated. Audit has ensured that the updated information was verified to the general ledger.

Internal Audits

Pennichuck Corporation does not have an Internal Audit division. Within the Audit, Finance and Risk Committee (of the Pennichuck Corporation Board of Directors) charter dated 2/2018, was the following (among other sections):

“3. With respect to accounting principles and policies, financial reporting and audit control over financial reporting, the Committee shall have the following duties and responsibilities:

- (i) to advise management and the independent auditors that they are expected to provide to the Committee a timely analysis of significant issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting;
- (ii) to obtain at least annually a report on internal controls from the Assistant Treasurer and to consider any reports or communications (and management's responses thereto) submitted to the Committee by the Assistant Treasurer in performance of his or her duties in regard to internal controls documentation and testing; ...”

In addition, the results of the annual internal financial review are communicated to the Board of Directors by the Controller of Pennichuck Corporation. Refer to the External Audit section on the next page that summarizes the PEU's Audit, Finance and Risk Management Committee meetings.

External Audit

At the Pennichuck Corporation March 23, 2018 Board of Directors' meeting, the Board approved a three year contract with Melanson, Heath & Company, PC to provide audit and tax services for three years. Below is the March discussion and authorization to contract with Melanson & Heath:

J. Dore, Chairman of the Audit, Finance and Risk Committee, gave a report on the Committee's March 21, 2018 meeting. He reported that the Committee met with representatives of the Company's auditors, Melanson Heath, to discuss Melanson's audit report and to review in detail the draft of the 2017 audited consolidated financial statements and related notes. The Company received a clean, unmodified opinion from Melanson Heath. The auditors reported that during the audit, there were no disagreements with management, no material deficiencies detected, and no occurrences of fraud identified. The Committee approved the 2017 audited financial statements. J. Dore indicated that debt covenant compliance was discussed and that the auditors tested drawdowns for bond project funds and found no exceptions. The Committee reviewed the Company's draft Annual Report to Sole Shareholder and had no changes or comments. J. Dore reported that the Committee was also given a presentation on the 2017 internal controls review and testing project. He indicated that 5 control deficiencies were identified but were not significant and did not represent material weaknesses. J. Dore also reported that the audit services contract with Melanson Heath is expiring, and based on a number of concerns in changing auditors at this time, the Committee authorized L. Goodhue to obtain a 3-year proposal from Melanson Heath.

Minutes of the Board of Directors

Audit reviewed Pennichuck East Utility's Board of Directors' minutes for 2019 which are found on the Pennichuck.com website.

In year 2019, three annual meetings were held at the Company's offices at 25 Manchester Street in Merrimack, New Hampshire. The first was held on Friday, February 22, 2019. In that meeting was the unanimous approval of the October 26, 2018 Board of Directors' minutes and a motion for the approval of a distribution from the Company in the amount of \$155,299 to fund Pennichuck Corporation's payment to the City's acquisition debt. That motion was unanimously approved and was to be recorded to Pennichuck Corporation on February 22, 2019.

Management was also seeking approval for the Company to enter into a term loan with CoBank in the amount of \$1,450,000 with an amortization period of up to 25 years. Proceeds from the loan are to be used to refinance and repay its \$3,000,000 Fixed Line of Credit borrowings with CoBank. The motion was unanimously approved by all the Directors present.

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

The third meeting was held on Thursday, May 23, 2019. The first order of business was a motion to elect a Chairman for the following year and was made by J. McGrath and seconded by J. Lustig. All the Directors unanimously voted to elect Thomas J. Leonard as the Chairman of the Board of Directors for Pennichuck East Utility, Inc. Also, the Board unanimously approved the March 22, 2019 Board of Directors' minutes.

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

Larry D. Goodhue	Chief Executive Officer, Chief Financial Officer and Treasurer
Donald L. Ware	Chief Operating Officer
Suzanne L. Ansara	Corporate Secretary

George Torres
Carol Ann Howe

Corporate Controller
Assistant Treasurer

The fourth meeting was held on Friday, October 25, 2019. In that meeting, a motion to approve the May 23, 2019 Board of Directors' minutes was unanimously approved.

A motion was made by J. McGrath that the Board move to a non-public session to discuss the acquisition, sale or lease of real or personal property pursuant to RSA 91-A:3, II(d). The motion was entered at 8:02 a.m. and was ended at 8:06 a.m. It was also moved to seal the minutes of the non-public session which was also approved by the entire Board.

In the non-public session, the Directors approved the sale by PEU to sell a parcel of land located on Allard Farm Circuit in North Conway. Refer to the Plant section of this report for additional details.

UTILITY PLANT

Bidding

The Company stated that they follow the general bid process for significant capital projects that exceed \$10,000, as defined by the Company's requisition policy. Audit requested PEU's Record of Bids/Proposals from 2017 through 2019 and tested the policy against the sample of projects chosen for review. The Company went out to bid for nine projects that included Brady Avenue Main Replacement in Derry, Merrimack River Water Crossing, Hillcrest Road Water Main, Merrimack River Crossing Booster Station, Consulting for record retention/Office 365 Exchange Server, Storage Upgrade, Nashua Road Main replacement, Lock Lake Water Main, and Lower Road Main in Plaistow. The Company selected the lowest bidder for each project. The Company's Bid Process Overview – Significant Capital Projects lists exceptions to the bid process as:

- Emergency/Critical projects for which time does not allow for the bidding process
- Emergency or unplanned work being conducted by municipalities.
- Work requiring uniquely qualified and highly specialized contractors

Continuing Property Records

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

Leases

The Company indicated there were no leases with regard to fixed plant assets.

Materials

The Company indicated there were no materials charges booked during 2019 as they are allocated at the PWW level. Audit verified the Materials and Supplies accounts 151 – 153 per the PUC annual report reflected zero. The general ledger for PEU does not reflect these accounts.

Plant in Service

Audit reviewed the general ledger as of December 31 for 2017-2019 for all plant in service accounts, with each year verified to the PUC annual report F-8.

2017 \$66,870,515 representing a 12% increase over the 2016 balance
 2018 \$72,521,879 representing an 8% increase over the 2017 balance
 2019 \$75,762,602 representing a 4% increase over the 2018 balance

Audit verified the \$75,762,602 plant in service to the general ledger (GL). The \$75,767,052 Plant in Service balance on filing schedule 2 is different from the GL. The difference is account 103 - Property Held for Future Use in the amount of \$4,450 which is included on the filing but should not be included for rate making purposes. **Audit Issue # 2**

Plant in Service	\$	72,521,879
Additions	\$	3,538,670
Retirements	\$	(327,468)
<u>Adjustments/Transfers</u>	\$	29,521
Total Plant in Service 2019	\$	75,762,602
Filing Sch. 2, Plant in Service 2019	\$	<u>75,767,052</u>
Plant Held for Future Use	\$	<u>(4,450)</u>

DW 17-128 Step Adjustment

The Audit report issued August 30, 2018 verified \$765,577 in plant additions to source documents and the GL. The report concluded there were no audit issues.

DW 17-128 Step Increase	Actual Costs	
Stone Sled Station Upgrades (2017 Carryover)	\$	12,178
Stone Sled Station Upgrades	\$	66,685
Litchfield Hydraulic Model – Asset Management	\$	51,900
Hardwood New Source (2017 Carryover)	\$	112,949
Hardwood New Source (2016)	\$	51,173
Braemar Woods Main Extension	\$	7,392
Pine Haven Land Acquisition	\$	95,290
2017 New Services – PEU	\$	76,749
2017 Renewed Services – PEU	\$	27,094
2017 Gate Replacements – PEU	\$	538
2017 Meters 5/8”-6” - PEU	\$	164,831
Booster/Well/Chemical Feed Pump Replacements – PEU	\$	56,471
Shaker Heights-Install Water Softening System	\$	16,012
Ministerial Heights-Install Radon Treatment	\$	12,825
PEU-Hudson Wholesale Cellular Meter Readers	\$	3,494
Wesco Pressure Vessel Replacement	\$	9,996
Total Used and Useful Projects	\$	765,577

DW 19-035 QCPAC

The Audit report issued April 18, 2019 verified \$5,251,872 in plant additions and associated property tax payments. An audit issue related to \$25,000 Land and Right of Way booked to account #303600. The property is related to a 16” insertion valve that was paid by PEU and installed on a Manchester Water Works pipeline. Manchester Water Works, not PEU, owns the insertion valve. The Company needs Commission approval so the asset can be accounted for as a regulatory asset in account 186 and amortized over the life of the loan that was used to purchase the valve. **Audit Issue # 3**

DW 19-035 QCPAC	Work Order #	
Projects	Project #	Cost 12/31/18
Brady Avenue Main Replacement-Derry	1807069	\$ 371,348
Hillcrest Road Main Replacement-Litchfield	1807072	\$ 254,860
PEU - PWW Interconnection	1807155	\$ 2,979,915
PEU - PWW Interconnection-Booster Station	1813395	\$ 339,864
Insertion Valve Installation	1824544	\$ 25,000
Replace Pump #4 VFD at Castle Reach	1819462	\$ 3,944
Replace Pump #2 VFD at W&E	1816163	\$ 3,013
Replace Pump #5 VFD at Castle Reach	1807058	\$ 4,145
Replace Pump #13 VFD at Locke Lake	1818296	\$ 2,684
		\$ 3,984,773

On June 4, 2019, an Addendum to the DW 19-035 QCPAC Audit report was issued resulting from the review of an additional \$703,626 in plant additions and \$7,575 associated property tax impact. The addendum identified one issue related to DW 17-036 River Crossing interconnection legal costs of \$4,883. The Audit Report indicates that after Commission approval, the amount should be credited to account 331100 and debited to a regulatory asset account 186 with a 20-year amortization period. **Audit Issue #3**

DW 19-035 QCPAC Addendum	Work Order #	
Projects	Project #	Cost 12/31/18
Brady Avenue Water Main Improvements-Derry	1703684	\$ 247,635
PEU - PWW Interconnection Design Evaluation	1608938	\$ 63,460
PEU - PWW Interconnection Design Evaluation	1701879	\$ 338,762
PEU - PWW Interconnection Design Evaluation	1807362	\$ 53,769
		\$ 703,626

DW 20-019 QCPAC

The Audit report issued April 16, 2020 verified \$1,787,322 in plant project additions unitized to plant in services and \$45,231 associated with property tax expenses. There were no audit issues identified.

Project Name/DW 20-019 QCPAC	Work Order #	Final Project cost as of 12/31/2019
Georgetown Area water main replacements	1917479	\$20,845
Georgetown Drive water main replacement	1901644	\$400,377
Bradford Lane water main replacement	1901645	\$336,562
N.Barnstead Road - Eliminate dead end piping	1901646	\$248,858
Belmont Drive water main replacement	1901647	\$43,364
PEU-PWW Interconnection (Merrimack to Litchfield)	1900424, 1900434, 1908514	\$59,691
Rolling Hills Water Main Replacement	1825265, 1901649, 1918198	\$188,089
1x rev invest Normal Run Rate w/2 mos of PFOA in Litchfield	n/a	\$37,724
Alexander Road, Water Main Upsizing	1908374	\$1,119
Nashua Rd 4" Main Relocation - Carryover Charges	1829926 & 1906036	\$16,676
Weinstein/Dame Station Upgrades	1506139, 1603114, 1703756, 1813249, 1907079	\$108,286
Booster Pump replacement/rebuild	760 - 763 workorders	\$26,925
Booster Pump replacement/rebuild	1915423	\$6,697
Well Pump replacements	760 - 763 workorders	\$42,371

Chemical Feed pump replacements	760 - 763 workorders	\$8,143
Miscellaneous SCADA/Electrical	1910159	\$1,712
Miscellaneous SCADA/Electrical	1915363	\$1,742
Miscellaneous SCADA/Electrical	1915856	\$2,155
Miscellaneous SCADA/Electrical	1916937	\$2,115
Add communications between remote facility and Nashua WTP	1901651	\$4,488
Pennichuck East Survey Work	1702834	\$3,153
New Services (5)	720 workorders	\$14,560
Renewed Services (10)	721 & 722 workorders	\$35,824
Hydrants (5)	730 & 731 workorders	\$9,911
Gates (8)	712 workorders	\$33,630
Radios (550)	754 workorders	\$22,291
Meters (Growth) 5/8"-2" - PEU (220) / Lead Meter PEU (550)	750 workorders	\$69,613
PEU Capitalized short term project interest		\$40,401
Totals		\$1,787,322

Additions and Retirements to Plant

Activity since the prior audit (DW 17-128, test year ended 2016) was reviewed with the following additions, retirements and adjustments noted within each PUC annual report:

	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Transfers</u>
2017	\$7,590,296	\$(111,974)	\$ (69,050)	
2018	\$6,063,704	\$(406,187)	\$ (29,152)	\$22,999
2019	\$3,538,670	\$(327,468)	\$ 479	\$29,042

Plant Additions	Beginning 12/31/2019	2019 Additions	2019 Retirements	2019 Adjustments	2019 Transfers	Ending 12/31/2019
301 - Organization	\$ 386,400	\$ -	\$ -	\$ -	\$ -	\$ 386,400
302 - Franchises	\$ 69,878	\$ -	\$ -	\$ -	\$ -	\$ 69,878
303 - Land and Land Rights	\$ 1,102,688	\$ 127,758	\$ 5,664	\$ -	\$ -	\$ 1,224,782
304 - Structures and Improvements	\$ 7,322,555	\$ 186,330	\$ 9,810	\$ -	\$ -	\$ 7,499,075
307 - Wells and Springs	\$ 2,417,717	\$ 38,134	\$ 90,342	\$ -	\$ -	\$ 2,365,509
309 - Supply Mains	\$ 535,048	\$ 27,201	\$ -	\$ -	\$ -	\$ 562,249
310 - Power Generating Equipment	\$ 712,807	\$ 47,115	\$ -	\$ -	\$ -	\$ 759,922
311 - Pumping Equipment	\$ 1,884,508	\$ 145,112	\$ 6,108	\$ -	\$ -	\$ 2,023,512
320 - Water Treatment Equipment	\$ 1,322,289	\$ -	\$ 1,229	\$ -	\$ -	\$ 1,321,060
330 - Distribution Reservoirs and Standpipes	\$ 1,992,420	\$ -	\$ -	\$ -	\$ -	\$ 1,992,420
331 - Transportation and Distribution Mains	\$42,573,093	\$2,200,027	\$ 107,140	\$ -	\$ 29,042	\$44,695,022
333 - Services	\$ 7,869,639	\$ 545,234	\$ 32,286	\$ 479	\$ -	\$ 8,383,066
334 - Meter and Meter Installations	\$ 2,017,195	\$ 94,943	\$ 56,140	\$ -	\$ -	\$ 2,055,998
335 - Hydrants	\$ 1,504,488	\$ 114,287	\$ 964	\$ -	\$ -	\$ 1,617,811
339 - Other Plant and Miscellaneous Equipment	\$ 89,767	\$ -	\$ -	\$ -	\$ -	\$ 89,767
340 - Office Furniture and Equipment	\$ 2,689	\$ -	\$ -	\$ -	\$ -	\$ 2,689
343 - Tools, Shop and Garage Equipment	\$ 90,723	\$ -	\$ 17,785	\$ -	\$ -	\$ 72,938
344 - Laboratory Equipment	\$ 9,592	\$ -	\$ -	\$ -	\$ -	\$ 9,592
346 - Communication Equipment	\$ 515,700	\$ 12,529	\$ -	\$ -	\$ -	\$ 528,229
347 - Computer Equipment	\$ 92,317	\$ -	\$ -	\$ -	\$ -	\$ 92,317
348 - Miscellaneous Equipment	\$ 10,364	\$ -	\$ -	\$ -	\$ -	\$ 10,364
Total Plant in Service 101	72,521,879	\$3,538,670	\$ 327,468	\$ 479	\$ 29,042	75,762,602

E22s Capital Improvements Budget Request Form

The Company indicated they filed seven E-22s during the 2017-2019 period with the Commission. Based on a review of the E-22s filed with the Commission, the Company filed an E-22 in November 2018 for the Londonderry Storage Tank that was estimated to cost \$2,835,000. The costs included the design and construction, and disposal of the old tank. The anticipated completion date was year-end 2018.

Audit reviewed an E-22 from May 2018 for the Lock Lake Treatment Design that was budgeted to cost \$100,000. The project was mandated by NHDES. The Project was to be completed by the end of 2018. An additional E-22 from 2018 was for a Gillcrest Road pumping relay valve in Londonderry. The project was needed because the steel piping was roughly 25 years and was near the end of the service life. The project was estimated to cost \$58,750 and be completed by August 2018.

Audit reviewed an E-22 from March 2019 that was for an airstrip well construction to the Peacham Treatment Plant located in Locke Lake. The project was described as installing 2,600 feet of 4-inch raw water main on public roads and 1,200 feet of 4-inch raw main beneath Locke Lake. The Project was budgeted to cost \$540,000 and was anticipated to be completed by the end of 2019.

Audit reviewed an E-22 from March 2019 for the installation and replacement of 7,800 feet of substandard and deteriorating 2” and 4” diameter polyethylene pipe with 4” and 6” PVC and main to curb stop water service reconnections along Georgetown Drive.

Audit reviewed an E-22 from June 2017 to replace 2,400 feet of 1.5” water main with new 8” diameter ductile water main along Brady Ave in Derry. The project was budgeted to cost \$570,000 and was anticipated to be completed by November 2018.

Audit reviewed an E-22 from June 2017 for the replacement of 1,200 linear feet of existing 12-inch water main along Hillcrest Road in Litchfield. The project was budgeted to cost \$245,000 and be completed by the end of 2017.

Audit reviewed an E-22 to drill a new well at Hardwood CWS in Windham. The project was budgeted to cost \$75,000 and was anticipated to be complete in October 2017.

Audit reviewed an E-22 for the PWW-PEU Interconnection from March 2018. The project was to install 5,900 linear feet of 12” iron pipe on both sides of the river and 650 linear feet of 16” bell and socket iron pipe beneath the Merrimack River in Merrimack/Litchfield. The project was budgeted to cost \$3.3 million and be completed by the end of October 2018.

The Company provided a 2017-2019 Budgeted vs. Actual spreadsheet that included the construction budget for the year. Based on a review of the other budgeted vs actual projects, they were mostly routine items such as replacement of gate valves, meters, services, and hydrants. There were other large projects such as main replacement as well as other engineering and water treatment projects. The construction budgets were a supplemental tool provided to Audit. Many of the projects were filed with the Commission and recovered in the Step/QCPAC recovery mechanism discussed above.

Additions

The Company provided a reconciliation for 2017-2019 plant additions that compared whether the plant additions detail was reviewed in the prior Step/QCPAC audits. Audit tested plant additions for 2017-2019 that was \$6,287,940, \$1,348,415 for 2018, and \$1,915,593 for 2019. The Company then provided projects and work orders. The following are the specific projects/work orders Audit chose for review:

2017 Additions

Work Orders 1618903 and 1703659

Audit reviewed the \$97,245 installation of 1,544 feet of 8 inch main along Corning Road in Litchfield. The Company provided the journal entry detail that was from June 2017. The journal entry was part of a \$3,062,477 larger entry from June 2017

that included other work besides main such as services and hydrants. The work was part of adding new customers that were due to the PFOA contamination by St. Gobain. Audit reviewed the cost detail report that indicated there was labor and overhead related to electrical installation of the pumps. Audit reviewed the payroll detail for accuracy and the hours were correct.

Date	Description	Amount	Debit	Credit
6/30/2017	Mains:6" and Larger	\$ 2,309,800	331150-7000-001	
	Mains:4" and Larger	\$ 46,520	331151-7000-001	
	Gates:4" and Larger	\$ 31,850	331255-7000-001	
	Gates:6" and Larger	\$ 88,010	331256-7000-001	
	Mains: PRV Vault	\$ 98,000	331400-7000-001	
	Services	\$ 346,174	333230-7000-001	
	Hydrants	\$ 142,123	335100-7000-001	
	CIAC	\$ 3,062,477		271200-7000-001

Work Order 1620140

Audit reviewed the \$169,211 installation of \$2,300 feet of main on Horizon Drive in Litchfield. The charges were booked to the Mains account 331300. The Company provided the journal entry that was part of a larger \$587,537 entry from June 2017 for the installation of other mains in Litchfield. Audit reviewed the payroll and work order reports that showed the engineering, overhead, and installation labor charges.

Date	Description	Amount	Debit	Credit
6/30/2017	Dist. Mains: Developer Install	\$ 548,170	331300-7000-001	
	Hydrants	\$ 39,377	311210-7000-001	
	CIAC	\$ 587,537		271200-7000-001

Multiple Service Installations

Audit reviewed the \$41,301 installation of services in Litchfield. The charges were booked to account 333230. The customer service lines were installed in Windham, Litchfield, Pelham, Londonderry, Hooksett, and Raymond. Audit reviewed the inspection reports that Company that provides a record the service lines were installed. Audit reviewed the payroll and work order reports that showed the engineering, overhead, and installation labor charges

Date	Description	Amount	Debit	Credit
12/31/2017	Dev. Installed Services: CIAC	\$ 54,369	333200-7000-001	
	CIAC	\$ 54,369		271200-7000-001

Work Order 1721121

Audit reviewed details for 5 installed hydrants on Mammoth Rd in Windham. The charges were booked to the hydrants account 335100. Audit verified the journal entry details that were part of a larger entry from December 2017. Audit reviewed the payroll and work order reports that showed the engineering, overhead, and installation labor charges.

Date	Description	Amount	Debit	Credit
12/31/2017	Dist. Mains: Developer Install	\$ 418,119	331300-7000-001	
	Hydrants	\$ 24,604	311210-7000-001	
	CIAC	\$ 442,723		271200-7000-001

2018 Additions

Work Orders 1618903 and 1703659

Audit reviewed the \$42,591 Darrah Station pump #3 installation in Litchfield that was part of work orders 1618903 and 1703659. The charges were booked to the pumping account 311200 Electric Pumping Equipment and 311210 Pumping Equipment. Audit reviewed the cost detail report that indicated there was labor and overhead related to electrical installation of the pumps. Audit reviewed the payroll detail for accuracy and the hours were correct. Audit reviewed invoices from Carlson Systems and Smith Pump that were for the purchase of the pumps. The Company provided the journal entry activity that indicated the debit activity related to the pumps and the credits were to the CIAC account. The journal entry was posted at the end of June 2018.

Date	Description	Amount	Debit	Credit
6/30/2018	Electric Pumping Equipment	\$ 26,949	311200-7000-001	
	Pumping Equipment Pumps	\$ 15,642	311210-7000-001	
	CIAC	\$ 42,591		271200-7000-001

Work Order 1817422

Audit reviewed the \$84,429 installation of 1,002 feet of one foot main along October Ln. in Londonderry that was booked to account 331300. The Company provided the journal entry that was part of a larger \$344,925 entry from November 2018 for the installation of other main in Londonderry. Audit reviewed the payroll and work order reports that showed the engineering, overhead, and installation labor charges.

Date	Description	Amount	Debit	Credit
11/30/2018	Dist. Mains: Developer Install	\$ 344,925	331300-7000-001	
	Hydrants	\$ 14,763	311210-7000-001	
	CIAC	\$ 359,688		271200-7000-001

2019 Additions

Audit reviewed an \$180,200 MacGregor Cut Booster Station acquisition that was for \$180,200 that was booked to account 304550 structures and improvements. There was no specific work order as this was to record an acquisition of the MacGregor Cut out Booster Station. The Company provided the journal entry detail that was from March 2019. The journal entry was part of a larger entry from March 2019 that included other assets that were acquired other than the booster station such as hydrants, communication equipment, pumps, and power generation equipment.

Date	Description	Amount	Debit	Credit
3/31/2019	Booster Station	\$ 180,200	304550-7000-001	
	Dist. Mains: Developer Install	\$ 20,000	331300-7000-001	
	Power Generation Equipment	\$ 45,000	310000-7000-001	
	Electric Pumping Equipment	\$ 100,000	311200-7000-001	
	Metering Equipment	\$ 10,000	334000-7000-001	
	Hydrants	\$ 10,000	335100-7000-001	
	Communication Equipment	\$ 7,000	346000-7000-001	
	CIAC	\$ 372,200		271200-7000-001

Work Order 190113

Audit reviewed \$19,140 in installed services for Pillsbury Realty Development in Londonderry. The Company provided the journal entry detail that was booked in March 2019 as part of a larger entry from March 2019 that included the installation of other services in Londonderry, Barnstead, and Pelham. Audit reviewed the payroll detail for the installation of the service lines.

Date	Description	Amount	Debit	Credit
3/31/2019	Dev. Installed Services: CIAC	\$ 26,952	333200-7000-001	
	CIAC	\$ 26,952		271200-7000-001

Work Order 181705

Audit reviewed \$199,292 installation of 1,933 feet of one foot main in Londonderry along Pillsbury Rd booked to account 331300. The Company provided the journal entry that was part of a larger \$905,671 entry from July 2019 for the installation of other mains in Londonderry. Audit verified the payroll and work order reports that showed the engineering, overhead, and installation labor charges.

Date	Description	Amount	Debit	Credit
7/31/2019	Dist. Mains: Developer Install	\$ 841,922	331300-7000-001	
	Hydrants	\$ 63,749	311210-7000-001	
	CIAC	\$ 905,671		271200-7000-001

Work Order 1817711

Audit reviewed \$40,583 installation of 466 feet of 8 inch main in Londonderry on Village Common Crossing booked to account 331300. The Company provided the journal entry that was part of a larger \$905,671 entry from July 2019 for the installation of mains in Londonderry. Audit verified the payroll and work order reports that showed the engineering, overhead, and installation labor charges.

Date	Description	Amount	Debit	Credit
7/31/2019	Dist. Mains: Developer Install	\$ 841,922	331300-7000-001	
	Hydrants	\$ 63,749	311210-7000-001	
	CIAC	\$ 905,671		271200-7000-001

Retirements, Cost of Removal and Salvage

The combined plant retirements reported on the Asset Disposition Reports provided with the NHPUC Annual Reports agreed with the NHPUC Annual Report Schedule F-8 - Utility Plant and the Net Book Value report for the four years that were reviewed by Audit. The PUC annual reports reflect retirements and adjustments since the prior 2016 rate case of:

2017	\$111,974
2018	\$406,187
2019	\$327,468

The book cost of plant retired for the test-year 2019 totaled \$327,468 and the cost of removal totaled \$127,154. Audit verified the \$327,468 retirements to the PEU Asset Disposition Report for 2019. The Asset Disposition Report indicates the cost of removal charges were \$127,407. This is a \$253 difference compared to the GL and annual report. The Company indicated the variance was related to personal items removed from a property in Litchfield. The Company indicated the personal items were not included when the cost of removal was booked in December 2019. Audit reviewed a sample of retirements and cost of removal entries for plant additions that are booked at a rate of 10% upon asset acquisition related to distribution mains in Barnstead for the Locke Lake project. The retirement entry Audit sampled was for the retirement of a main on Georgetown drive for \$5,200 and the cost of removal portion was for \$520. The mains were included as part of a larger Locke Lake retirement entry done in November 2019.

108001-7000-001	Accumulated Depreciation-COR	\$103,387
331101-7000-001	Mains: 4" and Under	\$88,511
331250-7000-001	Gates: 4" and Under	\$3,172
333100-7000-001	New Services	\$7,629
333230-7000-001	Developer Installed Services-CIAC	\$4,075

The Accumulated Depreciation - Cost of Removal account 108001 reflected a year-end balance of \$1,464,310 with net activity throughout the year of \$127,154. The

Accumulated Depreciation-Loss account 108002 reflected a balance at 12/31/2019 of \$1,793,537 with net activity throughout the year of \$183,001.

The Chart of Accounts requires that utilities book asset dispositions and related cost or salvage to the appropriate plant account and accumulated depreciation account. PEU uses sub-accounts of the accumulated depreciation general ledger. The Company directly debits the following accumulated depreciation accounts 108000 Accumulated Depreciation, 108001 Accumulated Depreciation-Cost of Removal, and 108003 Accumulated Depreciation-Loss and credits the appropriate plant asset account.

Audit further reviewed the cost of removal entries for the 2017-2019 Step Adjustments and QCPAC audits. The 2017 Audit Report indicated there was \$26,998 in cost of removal entries. A sample entry from November 2017 was chosen for review, demonstrating that the debit to Accumulated Depreciation-Cost of Removal account 108001 was offset with credits to the related plant in service accounts:

108000-7000-001 Accumulated Depreciation	\$24,855
331100-7000-001 Mains: 6" and Larger	\$20,090
333200-7000-001 Renewed Services	\$1,179
334400-7000-001 Metering Equipment	\$1,061
335000-7000-001 Fire protection Hydrants	\$2,524

The 2018 Audit report indicated there was \$148,182 in cost of removal entries. The Company provided the 108001 Accumulated Depreciation-COR account trial balance detail that indicated this was the correct balance.

The 2019 Audit report indicated there was \$126,929 in cost of removal entries. The Company provided the 108001 Accumulated Depreciation-COR account trial balance detail that indicated this was the correct balance.

Land Rights Question

The Company booked \$108,286 to account # 303520 Land Rights/Source of Supply for a pumping plant related to the Weinstein Well. Audit asked the Company the Company when the pumping plant well will be built and if a Commission Order authorized the charges to be accounted for as a regulatory asset and amortized. **Audit Issue #3**

Vehicles

All Company vehicles are owned by PWW and charged to PEU when utilized by the utility.

Construction Work in Progress (CWIP)

The 2019 ending general ledger balance for CWIP, Account 105222 and clearing account 105444 in the amount of \$729,035 was verified to the 2019 NHPUC annual report and filing schedule 2.

105222-7000-001 CWIP-Contractor Clearing	\$474,816
105222-7000-001 CWIP-Contractor Clearing Other	<u>\$254,219</u>
Total	<u>\$729,035</u>

CWIP consists of 10 projects and other miscellaneous small projects less than \$5,000. The Company indicated the 2017 survey work related to the Town of Pelham main replacements. The construction completion dates have been pushed back every year due to more pressing projects needed to be completed such as emergency work.

	<u>CWIP</u>
Airstrip Station Upgrades-Complete Design	\$ 39,197
Darrah Station Upgrades (PFOA)	\$ 64,172
Gilcrest PRV Station Rebuild	\$ 16,948
Liberty Tree Station Replacement-Escrow	\$ 11,720
Locke Lake Treatment Design	\$ 364,822
Londonderry Tank Design	\$ 186,539.00
PEU Survey Work-2017	\$ 14,477
PEU Station Demo	\$ 15,129
Upgrades to Windham Rd. Booster Station	\$ 20,860
Other projects Less than 5k	<u>\$ (4,829)</u>
Total	<u><u>\$ 729,035</u></u>

Construction Overhead & Engineering/Information System (IS) Overhead

Several work orders tested included PEU construction overhead. The Company explained that the construction overhead appears on the work order detail reports as overhead. A percentage is applied to union labor and manually added as a charge to the project. The construction overhead rates for the three years reviewed are as follows:

2017 = 67.96%
2018 = 66.78%
2019 = 63.24%

All the projects audited contained monthly schedules showing the work-order number, the engineer's initials, labor hours, hourly rates and the total charge for that particular month. The Company explained that the engineering overhead is calculated via a computer application using data exported from Paylocity, the payroll Company used by Pennichuck Corporation. The payroll administrator is responsible for the calculation

which is also entered manually as a direct charge to a project. The engineering overhead rates for the three years reviewed are as follows:

2017 = 51.25%
2018 = 51.84%
2019 = 48.73%

Audit traced the charges to the Work Order Detail Report for several projects that were reviewed and found no exceptions.

Allowance for Funds Used During Construction (AFUDC)

The Company did not have any AFUDC charges in 2019. The Company during 2018 booked \$87,763 in AFUDC charges. The Company indicated per Commission Order 26,313 that part of the requirements for filing the 2019 PWW QCPAC the Company agreed to no longer calculate AFUDC and would replace the inclusion of AFUDC for a project total with the interest incurred on the fixed asset line of credit. The FALOC was booked to account 232100 Fixed Asset Line of Credit that had a test year ending balance of \$995,881. The Company indicated the 2019 fixed asset line of credit was \$42,635 based on a review of the calculations provided to Audit.

Contributions in Aid of Construction (CIAC)

The PUC annual report reflects CIAC in the amount of \$24,548,147. Accumulated Amortization of CIAC in the amount of \$(3,404,849) was also reviewed. The net CIAC balance of \$(21,143,298) was verified to the filing schedule 2A, Bates page 211 the CIAC Balance Sheet accounts. Audit verified the total to the following general ledger accounts for 2019. The filing schedule 2C that reflects CIAC on Bates Page 219 summed to \$20,543,298. The filing schedule 2C does not include the \$600,000 source grant on the GL. The Company indicated this should have been included on the filing schedule 1. **Audit Issue #4**

271200-7000-001 Contributions in Aid of Construction	(18,098,736.46)
271204-7000-001 CIAC: Maple Hills Grant	(82,387.53)
271205-7000-001 CIAC: Birch Hills Grant	(119,367.38)
271206-7000-001 CIAC: Locke Lake Grant	(15,716.31)
271207-7000-001 Drinking Water Fund	(600,000.00)
271250-7000-001 CIAC: Londonderry/MWW Connect	(603,000.00)
271300-7000-001 CIAC: Season Lane, Londonderry	(15,400.00)
271302-7000-001 CIAC: Pelham	(84,300.00)
271303-7000-001 CIAC: Litchfield	(150,367.50)
271304-7000-001 CIAC: Bow	(19,200.00)
271305-7000-001 CIAC: Lakeview Farms - Windham	(46,000.00)
271325-7000-001 CIAC: Meadowbrook Pump Station	(18,900.00)
271350-7000-001 CIAC: Oakwood	(36,000.00)
271360-7000-001 CIAC: Smythe Woods - Hookset	(20,690.39)
271370-7000-001 CIAC: W&E	(32,805.00)
271380-7000-001 CIAC: Fletchers Corner - Arsenic	(68,650.00)
271400-7000-001 CIAC: Developer Installed	(4,536,626.39)
CIAC	\$ (24,548,147)
272101-7000-001 Reserve for Amortization of CIAC: PEU	\$ 3,404,849
NET CIAC	\$ (21,143,298)

Developer contributions during the test year summed to \$(1,944,041) including grant money totaling (\$29,423). The Company states that the grant money is in various asset accounts that are being amortized at the composite rate of 2.19%. Audit reviewed the amortization schedule provided by the Company over 45.67 years using straight-line depreciation. Audit verified the CIAC credits to the following:

271200 Contributions in Aid of Construction	\$(1,914,618)
271204 CIAC Maple Hills Grant	\$ (9,857)
271205 CIAC Birch Hill Interconnect Grant	\$ (17,749)
271206 CIAC Locke Lake Grant	\$ (1,817)
Total Contributions in 2019	\$(1,944,041)

Audit verified the offsetting CIAC related asset accounts to the 2019 additions to Plant. Specifically: There was a (\$942) variance between the annual report and general ledger. The Company indicated the difference was due to adjustments/reclassifications on the annual report as well as the \$328,613 included in the 309 supply mains account should not have been included in the annual report but rather the 333 services account. The Company indicated the services account should have been \$330,826 for 2019. **Audit Issue # 5**

Account	Account Title	Annual Report	General Ledger	Variance
304550	Booster Stations	\$ 180,200	\$ 180,200	\$ -
346xxx	Communications Equipment	\$ 7,000	\$ 7,000	\$ -
	Composite Rate	\$ 29,423	\$ 29,423	\$ -
331xxx	Distribution Mains	\$ 1,137,200	\$ 1,137,200	\$ -
331xxx	Distribution Mains	\$ -	\$ -	\$ -
330xxx	Distribution Reservoirs & Standpipes	\$ -	\$ -	\$ -
311xxx	Electric Pumping Equipment	\$ 100,000	\$ 100,000	\$ -
335xxx	Hydrants	\$ 105,334	\$ 105,334	\$ -
334xxx	Meters	\$ 10,000	\$ 10,000	\$ -
310000	Power Generation Equipment	\$ 45,000	\$ 45,000	\$ -
320xxx	Purification Equipment	\$ -	\$ -	\$ -
333xxx	Services	\$ -	\$ 330,826	\$ (330,826)
309xxx	Supply Mains	\$ 328,613	\$ -	\$ 328,613
	Adjustments/Reclass	\$ 1,271	\$ -	\$ 1,271
		<u>\$ 1,944,041</u>	<u>\$ 1,944,983</u>	<u>\$ (942)</u>

Accumulated Amortization of CIAC, account 272101, for the test-year 2019 totaled \$(3,404,849). This agrees with the 2019 NHPUC annual report and the filing schedule 2C. Audit traced twelve months of debits for each contribution being amortized and recalculated amortization rates with no exceptions. Offsetting credits totaling \$431,507 were verified to the Amortization Expense account 405300. The expense figure agrees with the 2019 NHPUC annual report. Audit noted that the amortization rates and the depreciation rates agreed with only minor exceptions.

Accumulated Depreciation

The 2019 NHPUC annual report and the filing schedule 2 reflect total Net Accumulated Depreciation of \$(15,602,948). Audit verified the total to the following general ledger accounts and related activity throughout the test year:

		<u>1/1/2019</u>	<u>Debits</u>	<u>Credits</u>	<u>12/31/2019</u>
Accumulated Depreciation	108000	\$ (17,439,010)	\$ 330,243	\$ (1,752,027)	\$ (18,860,794)
Accumulated Depreciation - Cost of Removal	108001	\$ 1,337,156	\$ 138,633	\$ (11,479)	\$ 1,464,310
Accumulated Depreciation - Loss	108002	\$ 1,610,536	\$ 231,240	\$ (48,239)	\$ 1,793,537
Net Accumulated Depreciation		<u>\$ (14,491,318)</u>	<u>\$ 700,116</u>	<u>\$ (1,811,745)</u>	<u>\$ (15,602,948)</u>

Refer to the Retirements portion of this report for detailed discussion regarding the accounting for Cost of Removal and Loss.

Depreciation Expense

Depreciation Expense per the 2019 NHPUC annual report agrees with the general ledger account 403000, which totaled \$1,549,220 as well. The Filing Schedule 2

Attachment A Bates Page 214 also was verified to the GL and annual report. Audit recalculated several accounts for accuracy and found no exceptions.

403000 Depreciation Expense \$1,549,220

F-52 ARRA Loan Forgiveness

Schedule F-52 on the annual report indicates the Company received \$23,661 in gains from loan forgiveness for various SRF loans PEU took out. Audit reviewed the \$23,661 booked on the GL to account # 414000-7000-001. The charges should be considered a Contribution in Aid of Construction. On Bates Page 147 of the filing, the Company indicates that based on the PWW DW 19-084 rate case Settlement Agreement in Audit Issue #4 the Company does not have to follow this practice because it has minimal to no difference on the revenue requirement and is beneficial to ratepayers. The Company further indicated per the PWW rate case (DW 19-084 Settlement Agreement and DW 20-055), section 5, reads as follows, "Allow PWW to continue its accounting methodology for the principal forgiveness on the Drinking Water State Revolving Fund loans." See also the Long Term Debt portion of this report. **Audit Issue # 6**

<u>Name of Property</u>	<u>Amount booked to acct 414</u>
SRF Green Hills Loan Forgiveness	\$5,799
SRF Locke Lake 2007 Loan Forgiveness	\$3,760
SRF Locke Lake 2011 SRF Loan Forgiveness	\$6,025
SRF Liberty Loan Forgiveness	\$7,029
Brady Ave Loan Forgiveness	<u>\$1,048</u>
Total	\$23,661

Acquisition Adjustments

Audit verified the net acquisition adjustments totaling \$(5,087,841) noted on the 2019 NHPUC annual report schedule F-7 and the filing schedule 2 the Balance Sheet to the following general ledger accounts:

<u>Acquisition Adjustments</u>		<u>Accumulated Amortization</u>		<u>Net</u>
114100-7000-001 Acquisition Adj	\$ (8,709,953)	115100-7000-001	\$ 4,046,253	\$ (4,663,700)
114101-7000-001 WESCO	\$ (7,940)	115101-7000-001	\$ 3,045	(\$4,895)
114102-7000-001 Castle Reach	\$ (185,750)	115102-7000-001	\$ 106,122	(\$79,628)
114103-7000-001 White Rock	\$ (230,800)	115103-7000-001	\$ 121,852	(\$108,948)
114104-7000-001 Lamplighter	\$ (276,667)	115104-7000-001	\$ 171,115	(\$105,552)
114105-7000-001 Fletchers	\$ (331,667)	115105-7000-001	\$ 206,549	(\$125,118)
	<u>\$ (9,742,777)</u>		<u>\$ 4,654,936</u>	<u>\$ (5,087,841)</u>

The acquisition adjustments only had activity in the 114100 account during the 2019 test year. There were quarterly entries in March 2020 and September 2019 recording losses on retired consumer acquisition assets. There were entries during year-end 2019 to reverse and correct the quarter 1 and quarter 3 adjustments. There was a net

\$11,619 in activity in the 114100 account during the test year. The amortization of the adjustments is discussed below.

Amortization

Audit verified the Amortization of Utility Plant Acquisition Adjustments from the NHPUC 2019 annual report schedule F-49 \$(195,643) and the Amortization of Other Utility Charges of \$340,758 to the NHPUC 2019 annual report schedule F-49, the filing schedule 1, and the general ledger accounts:

406100-7100-001 Acquisition Adjustment	\$	(170,115)
406101-7100-001 WESCO Acq Adj	\$	(115)
406102-7100-001 Castle Reach Acq Adj	\$	(5,696)
406103-7100-001 White Rock Acq Adj	\$	(6,355)
406104-7100-001 Lamplighter Acq Adj	\$	(6,138)
406105-7100-001 Fletchers Acq Adj	\$	(7,223)
Total Amortization Expense 406	\$	(195,642)
407100-7100-001 Amort Acquisition Premium	\$	213,318
407320-7100-001 Amort Deferred Charges	\$	127,440
Total Amortization Expense 407	\$	340,758

Audit verified that the filing Schedule 1, Attachment H eliminated the amortization expense related to MARA, for ratemaking purposes as required by Order 25,292, and the MARA Final Audit report issued on 11/19/2013. The \$213,317 debits booked to 407100 were offset to 186100, Acquisition Premium-MARA without exception. The total amortization expenses noted in account 407320 were verified to offsets posted to ten of the seventeen deferred accounts noted in the Deferred Debits portion of this report, below.

Total 2019 Journal Entries	
407320 Amoritzation Expenses-Deferred Charges	\$ 127,440.00
186175 Cross Connection Survey	\$ (54.00)
186701 Conway Water Prec-Buy in Fee	\$ (133.00)
186267 Litchfield Water Supp. Contract Fees	\$ (168.00)
186360 W&E Water Supply Study	\$ (272.00)
186720 Bow Highlands-Bow Acq.	\$ (372.00)
186370 Locke Lake Well/Groundwater Study	\$ (2,399.00)
186510 MSCD: Maple Hills-Derry	\$ (3,309.00)
186700 N. Conway Water Interconnection	\$ (6,005.00)
186500 Manchester Source Development Charge	\$ (39,623.00)
186266 Abatement Cost-Litchfield/Londonderry	\$ (67,417.00)
186500 MSD 11/30/2019 entry	\$ (7,688.00)
Total	\$ (127,440.00)

The Company included a November 2019 entry for \$7,688 debited to the 407320 account and credited to account #186500 the Manchester Source Development charge that was to correct an amount not booked the GL for 2016, 2017, and 2018. The amortization expense for the test year is overstated by \$7,688. **Audit Issue # 7**

The Company in May 2019 begin amortizing monthly \$20.97 entries that summed to \$168 for the test year. The monthly recurring charges were debited to the 407320 account and credited to account # 186267 Litchfield Water Supply Contract fees. The Company indicated the charges relate to connecting new customers in Litchfield and are being deprecation over a 19-year period at \$20.97 per month based on Audit's review of the journal entry provided by the Company.

Miscellaneous Deferred Debits \$8,071,779

Audit verified the total Deferred Debits noted on the filing Schedule 2 to the general ledger and the 2019 PUC annual report, however several accounts were inadvertently left of the support schedule 2, Attachment B. Five accounts were not included totaling \$45,515. To recap, Schedule 2 of the filing, the general ledger and the 2019 NHPUC annual report are correct.

<u>Account Number</u>	<u>Description</u>	<u>12/31/2019</u>
186100-7000-001	Acquisition Premium - MARA	\$ 7,366,833
186175-7000-001	Cross Connection Survey - PEU	\$ 4
186265-7000-001	Abatement	\$ 6,838
186266-7000-001	Abatement-Litchfield/Londonderry	\$ 11,236
186267-7000-001	Litchfield WHLS Water Supply Contract Fees	\$ 4,656
186360-7000-001	W&E Water Supply Study	\$ 1,610
186370-7000-001	Locke Lake Well/Groundwater Study	\$ 20,181
186400-7000-001	Rate Case Expense: North Country	\$ (19)
186415-7000-001	Rate Case Expense: 2017	\$ 9,462
186500-7000-001	Manchester Source Development Charge:LY	\$ 417,737
186510-7000-001	MSCD: Maple Hills - Derry	\$ 26,738
186700-7000-001	North Conway Water Interconnection	\$ 48,518
186701-7000-001	North Conway Water Precinct -Buy In Fee	\$ 1,073
186710-7000-001	Skyview Estates - Pelham	\$ 3,309
186720-7000-001	Bow Highlands, Bow NH-Acquisition Adjustment	\$ 2,397
186730-7000-001	Co-Bank Deferred Patronage	\$ 151,206
Total		\$ 8,071,779

The largest balance is account 186100-7000-001, Acquisition Premium MARA which at year-end 2019 reflected a balance \$7,366,833. The beginning 2019 general ledger balance was \$7,580,152 that agreed with the 2019 filing schedule 2, Attachment C, page 260 of the filing. The general ledger shows the amortization of the deferral, account 407100-7100-001 with an entry in January for \$17,390 and 11 monthly entries of approximately \$17,811 per month and totaled \$213,318 for the year.

Audit reviewed the entries to account 186500-7000-001 – Manchester Source Development charge and noted a beginning balance of \$465,049 and twelve monthly credit entries of approximately \$(3,302) and a correcting entry in November, 2019 for \$(7,688) described as amortization that did not hit the general ledger for 2016, 2017 and 2018 which results in a test-year ending balance of \$417,737. The corresponding debit entries were posted to account 407320-7100-001 – Amortization Expense, Deferred Charges.

Also reviewed were the entries to account 186730-7000-001 – Co-Bank Deferred Patronage and noted a beginning balance of \$124,847 with an entry in March for \$39,592 which was reversed in April and a debt entry in April for \$26,359 resulting in a test-year ending balance of \$151,206.

CURRENT ASSETS

Cash

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

130110-7000-001: Unallocated Cash	\$	-
131110-7000-001: Petty Cash - North Country	\$	900
131140-7000-001: Cash - TD Bank	\$	-
131350-7000-001: Restricted Cash - TD Bank - RSF	\$	56,815
131375-7000-001: DSRR 1.0 RSF	\$	88,961
131380-7000-001: MOERR RSF	\$	(67,873)
131385-7000-001: MOERR	\$	532,745
131390-7000-001: DSRR 1.0	\$	136,727
131395-7000-001: DSRR 0.1	\$	94,687
133100-7000-001: Other Special Deposits	\$	39,170
	\$	882,132

Account 130110-7000-001 - Unallocated Cash holds cash temporarily before transferring to the Cash-TD Bank Checking account. The account is mainly used for monthly general ledger transfers from MUNIS.

Account 131110-7000-001 - Petty Cash North Country is the PEU Petty Cash held at the Water Treatment Plant.

PEU provided the TD bank statement for the year ending December 31, 2019 for account 131140-7000-001 - Cash TD Bank which was for a zero balance. This account is the main cash operating account. All checks are paid out of it and all deposits are recorded in it. Each day, a cash receipt journal for walk in payments is generated and the checks are processed through an electronic remote deposit. The cash deposit is made with the following day's manual mail receipts, which are brought to the bank by the courier

Larry Goodhue PEU CEO and CFO is authorized to open bank accounts, sign checks, and transfer or withdraw money from the checking accounts as approved at the Pennichuck Corporation Board of Directors meeting on October 23,2015. Other check signers are Carol Ann Howe PEU Assistant Treasurer, George Torres, Treasurer and Donald Ware Chief Operating Officer. The Accounting Manager and a Senior Accountant may move funds among cash accounts with the approval of the PEU Treasurer and Controller.

Account 133100-7000-001 - Other Special Deposits of \$39,170 consists of a deposit paid by the Town of Barnstead for paving in October 2014 in the amount of

\$40,000 and a deposit held in escrow for a customer in the amount \$(830) until the customer sign up for water. This deposit dates to November 2014. PEU provided all the supporting documentation.

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

Accounts Receivable Billed - Net \$670,711

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

141000-7000-001	Accounts Receivable - Billed Water Revenue	\$502,888
141400-7000-001	Accounts Receivable – Miscellaneous	\$169,823
143901-7000-001	Allowance for Doubtful Accounts	<u>\$ (2,000)</u>
	Net Receivables	\$670,711

The billed water revenue receivable figure represents 8% (\$670,711/\$8,682,019) of the total revenue for the year. Audit reviewed the monthly aging summary and noted the following PEU and PEU’s North Country (NC) Division:

	PEU	PEU-NC
Current	69%	55%
1-30 days	23%	22%
31-60 days	6%	9%
61-90 days	4%	7%
91-120 days	1%	3%
Over 120 days	-3%	4%

Audit reviewed account 143901-7000-001 - Allowance for Doubtful Accounts which showed a year-end balance of \$2000 which is offset to the Uncollectible Accounts 904000-7108-001. The detailed GL shows account 904000 with a year-end balance of \$25,100.68. The monthly descriptions reference to *adjust the allowance account (aka deferral) to \$2,000*. Refer to the Revenue section of this report, and to the Operations and Maintenance section for additional testing.

Weekly delinquent/disconnect notices are generated for customers with a balance over \$50 and outstanding over 31 days. If a customer has not received a notice within the last 12 months they will first receive a delinquent/past due notice giving them 14 days to pay. If they have received a notice in the last 12 months then a Disconnect Notice is issued which provides 14 days to pay prior to the shutoff date. An automated reminder call is generated the week prior to the disconnect date. If there is no payment received or

payment arraignment made before the shutoff date then a shut-off order is generated and a technician will visit the property to collect the funds or disconnect the service.

The PEU collection and write off procedure for final bills for Water is as follows:

1. The customer is given 25 days to pay the bill
2. The customer is sent a collection notice after 31 days and is given 14 days to pay or make payment arrangements.
3. If the customer has not paid or made arrangements after 14 days, the bill is given to the collection agency and the balance is written off to the allowance account.
4. Any recovery from the collection agency is credited to the allowance account.
5. Due to bankruptcy, balances as of the file date may also be written off to the allowance account.

Inventory \$-0-

Audit verified the total reported Materials and Supplies noted in the PUC annual report and the filing schedule 2, to the following general ledger accounts:

151101-7000-001 Inventory \$ -0-

The Company states that there are no inventories or supplies for PEU. All inventories and supplies are accounted for at the PWW level.

Accrued Utility Revenues \$671,377

Audit verified the Accrued Revenue figure from the PUC annual report, schedule F-24, to the filing schedule 2 and the following general ledger accounts without exception:

173150-7000-001	Unbilled Water Revenue	\$573,647
173200-7000-001	Unbilled Water Revenue Recoupment - 2012	\$ -0-
173300-7000-001	Unbilled Water Revenue Recoupment - 2017	<u>\$ 97,730</u>
	Total	\$671,377

Accrued utility revenue represents the unbilled portion of revenue related to a specific year. Audit verified the reported amount from Schedule 2 of the filing to PUC annual report and general ledger account #173xxx-7000-001 Unbilled Water Revenue.

Account 461100-7100-001, Unbilled Revenue reflected a net change for the year of a debit \$(20,031). Audit reviewed the unbilled revenue calculations for the month end December 2019 and January 2020. Entries are automatic reversals.

162xxx-7000-001 Prepaid Expenses \$7,393

The total prepaid expenses of \$7,393 was noted on the PUC annual report, account 162. Audit tied this amount to the filing 1604.01(a)(19), Tab 35, as well as to the following general ledger accounts:

162100-7000-001	Prepaid Insurance	\$ 83
162700-7000-001	Prepaid Expenses	<u>7,310</u>
	Total Prepaid Expenses	\$ 7,393

162100-7000-001 Prepaid Insurance \$83

Account 162100, Prepaid Insurance, contained monthly debit transactions to cash management and credit transactions to record monthly insurance expenses. Offsetting entries for the prepaid insurance were verified to account 924000-7109-001 Insurance Expense. Audit reviewed the activity and the premiums per the insurance cover sheets related to all property and liability insurance, outlining the terms of the policies and premiums. Each was a calendar year coverage period, with the exception of the Crime policy which ran from 1/1/2019 to 1/1/2021. Refer to the Expenses portion of this report for additional information relating to insurance.

There were seven entries on the general ledger, each in the amount of \$9,967, to record the insurance billing from PWW. Audit reviewed the accompanying Traveler's Insurance bill, as well as the insurance allocation calculation. A March journal entry for the re-classification from the insurance expense account to the prepaid insurance account, totaling \$29,964, was also reviewed. The Company explained that the posting was to correct its original post to the incorrect account. Audit reviewed the detailed journal entry for the re-classification of \$29,964, as well as verifying the amount to the insurance allocation calculation provided by the Company.

162700-7000-001 Prepaid Expenses \$7,310

The general ledger for the Prepaid Expenses account contained quarterly debits for the regulatory commission expenses, as well as monthly credit entries to record the prepaid expenses for the month. Activity within the account during the test year reflected prepayments for permits to operate, PUC assessments, and monitoring service fees.

One debit entry on March 11, 2019, in the amount of \$1,260, was for the yearly monitoring service fee subscription. Audit reviewed the accompanying assessment invoice from Generating Solutions, verifying the charge. There were also credit entries totaling \$11,525 that were offset to the Licensing Fees expense account 930102. Refer to the Miscellaneous General Expenses, account 930102, for additional information.

181000-7000-001 Debt Issuance Expenses \$236,980

The Unamortized Debt Issuance Expense account balance of \$236,980, noted on schedule 2 of the filing, was verified to page 16 of the PUC annual report, as well as to the general ledger. Schedule F-25 of the Annual Report lists twenty-seven instruments, bonds and loans and the respective unamortized debt discount. Audit reviewed the amortization schedules to the general ledger balances for the debts. The Amortization of

Debt Expense, account 428000-7000-001, totaled \$23,763 for 2019. Ten debits during the year, noted on Schedule F-25 of the annual report, totaled \$18,882 and were included in the activity for account 181000-7000-001, Unamortized Debt Expense, and offset to account 231000-7000-001, Accounts Payable.

Two debit entries were reviewed and Audit requested the supporting invoices for the expenses. One invoice was from Rath, Young and Pignatelli PC, in the amount of \$9,094, was for legal services rendered in July 2019 relating to the PEU CoBank loan. The other invoice reviewed was from Sherman & Howard, LLC, in the amount of \$6,032, for services rendered relating to the CoBank loan.

LIABILITIES and EQUITY

The 2019 balance sheet equity and liabilities, noted on Schedule 2A of the filing, totaled \$66,578,014. Audit verified the total equity and liabilities to the general ledger, as well as to the PUC Annual Report.

Common Stock

Schedule 2A of the filing reports the Common Stock total of \$(100), as of December 31, 2019. This \$(100) total agrees with the PUC annual report, as well as with the general ledger account 201100-7000-001, Common Stock. The Company's stock is owned by Pennichuck Corporation. Audit reviewed prior years' general ledger summaries, noting that the 2019 Common Stock total of \$(100) has remained constant since the 2016 rate case.

Paid-In Capital \$(11,216,165)

The 2019 year-end balance for Paid-In Capital totaled \$(11,216,165). Audit verified the balance to Schedule 2A of the filing, as well as page 17 of the PUC Annual Report. The following general ledger accounts represent the Paid-In Capital total:

211000-7000-001	Additional Paid in Capital	\$ (11,428,201)
219000-7000-001	Other Comprehensive Income	<u>\$ 212,036</u>
		\$ (11,216,165)

The only activity noted in the Additional Paid in Capital account was a debit on 2/28/2019 in the amount of \$155,299. The entry description indicated that it was to record a resolution from the Board of Directors to distribute dividends. The offsetting credit entry was to account 233300-7000-001, Intercompany Payable/Receivable: PEU/PCP.

Audit verified that the total Other Comprehensive Income balance of \$212,036 represents 60% of the Other Liability Derivative balance of \$(353,393) for account 224100-7000-001. Refer to the Other Long Term Debt section of this report for further details. The remaining 40%, or \$141,357, of the offsetting Derivative was noted in the

Deferred Income Tax Swap account 282201-7000-001. Refer to the Tax section of this report for additional information. The activity within the 219000 account reflects monthly adjustments to the Other Liability-Derivative (FAS 133, Accounting for Derivative Financial Instruments and Hedging) account 224100-7000-001. The net activity for the year in the Other Comprehensive Income account was noted to be a credit of \$71,569. The net activity in the Deferred Income Tax Swap account was noted to be a credit of \$47,712. Audit confirmed that the net activity in the Deferred Liability Derivatives account was noted to be the debit sum of \$119,281.

The calculation for the December 2019 derivative to adjust to fair value was requested by Audit. In response, the Company provided the detailed journal entry to adjust other liability derivative (FAS 133), as well as the adjustment calculation and a copy of the CoBank valuation letter. Audit verified that the difference between the December 2019 “dirty” (with accrued interest) market-to-market (MTM) amount of \$353,393 and the 12/31/2019 general ledger balance of \$392,159 for the Other Liability Derivative account, was equal to \$38,767. Audit confirmed that the \$38,767 represents 40% or \$15,507 Deferred Income Tax and 60% or \$23,260 Other Comprehensive Income.

Retained Earnings \$2,156,261

The total Retained Earnings of \$2,156,261 was noted in the filing on schedule 2A, as well as to page 17 of the annual report. The following represents the general ledger activity for the Retained Earnings account that was also verified to Schedule F-3 of the annual report:

215500-6000-001 Retained Earnings Opening Balance	\$ 1,176,456
Net Income per Income Statement F2 of Annual Report	<u>\$ 979,805</u>
Adjusted Retained Earnings at Year End F3 Annual Report	\$ 2,156,261

The general ledger balance for the Retained Earnings account 215500-6000-001 reported a 2019 year-end balance of \$1,176,456. Audit noted that there was no activity posted to the account for the test year 2019. The annual report balance sheet, line 10, reflects the Retained Earnings as account 215, with a balance of \$2,156,261. Audit confirmed the \$979,805 variance between the general ledger Retained Earnings total of \$1,176,456 and the annual report/filing Retained Earnings total of \$2,156,261, to the net income reported on the annual report schedule F-2, Statement of Income.

Long Term Debt

Bonds, Notes, Mortgages \$(20,078,551)

Audit verified the PUC annual report total of long term debt to the general ledger accounts 221xxx-7000-001. The long term debt reported on schedule F-35 of the annual report was tied to the corresponding interest, per the amortization schedules provided to

Audit. The following represents the Company's long-term debt obligations, as reported on schedule F-35 of the annual report:

Debt Obligation	Date of Issue	Outstanding	Rate	2019 Interest
Bonds (Account 221)				
CoBank	3/1/2010	\$2,715,544	5.95%	\$169,974
CoBank	7/21/2013	\$1,294,541	3.62%	\$49,109
CoBank	7/21/2013	\$706,244	4.25%	\$31,405
CoBank	3/1/3015	\$557,471	4.90%	\$28,159
Green Hills SRF	8/14/2002	\$113,245	3.73%	\$4,689
Pelham SRF	5/9/2006	\$242,897	3.49%	\$9,044
Maple Hills SRF	12/1/2009	\$353,184	2.95%	\$10,884
Birch Hill SRF	9/14/2007	\$1,193,378	2.86%	\$35,469
Locke Lake 2007 SRF	1/1/2010	\$151,960	2.95%	\$4,743
Locke Lake 2011 SRF	6/1/2012	\$227,937	2.86%	\$6,722
Liberty Tree	12/15/2011	\$334,930	3.10%	\$10,651
Locke Lake 2012 SRF	12/1/2013	\$300,407	2.72%	\$8,430
Locke Lake Dam Site 2	9/1/2014	\$327,933	2.72%	\$9,168
Locke Lake - Winwood & Monroe Phase 1	5/22/2014	\$333,303	2.72%	\$9,299
Hickory & Avery	11/1/2015	\$359,529	2.72%	\$9,655
W&E Main Replacement	9/1/2016	\$882,518	2.62%	\$23,684
Hardwood Treatment Station	8/1/2016	\$491,091	2.46%	\$12,420
Locke Lake - Winwood & Monroe Phase 2	12/1/2016	\$349,020	2.46%	\$8,821
Locke Lake - Varney Road	11/1/2017	\$1,356,529		\$27,262
Co Bank Patronage				-\$65,899
Brady Ave SRF	8/1/2019	\$563,319	1.96%	\$12,691
Merrimack River Crossing SRF	10/1/2019	\$2,367,217	1.96%	\$48,880
Co Bank 950K Loan T6 (2)	1/1/2017	\$887,255	4.83%	\$44,092
Co Bank 1.25M Loan T6 (1)	7/1/2016	\$1,160,174	4.20%	\$50,198
Co Bank 350K Loan	5/1/2018	\$339,168	5.33%	\$18,556
Hillcrest Road SRF	TBD	\$238,741	1.96%	\$4,750
Locke Lake Georgetown Main Replacement	TBD	\$958,333	TBD	\$1,520
Locke Lake Surface Water Supply	TBD	\$128,105	TBD	\$534
CoBank 1.153M Loan T9	7/1/2019	\$1,144,579	4.38%	\$18,326
TOTALS		<u>\$20,078,551</u>		<u>\$603,237</u>

The filing schedule 2A, for account 221, totaled at \$21,074,432. Audit noted the \$995,881 variance, between the \$20,078,551 for the long-term debt reported on the annual report and the \$21,074,432 reported on schedule 2A of the filing, was for the Fixed Asset Line of Credit. Audit verified the \$995,881 Fixed Asset Line of Credit, to schedule F-36 of the Annual Report. Refer to the FALOC section of this report for details regarding the authorized conversion of short-term debt incurred through the line of credit into long-term debt.

CoBank 2010 PEU received approval to borrow \$6 million for a 20 year term from CoBank, via Order 25,041 on 11/9/2009. The primary purpose of the loan was to refinance a \$4.5 million floating-rate secured note payable to Bank of America that matured on 12/31/2009. The additional \$1.5 million was to be used to fund ongoing capital improvements and repay short term borrowings from the parent. PEU was also authorized to establish a \$1.5 million line of credit to reduce reliance on the parent for

short-term liquidity. At 12/31/2019, the outstanding balance was verified to the following general ledger accounts:

221010-7000-001 LTD CoBank 4.5M loan	\$ 2,495,450
221110-7000-001 Current Portion LTD CoBank 4.5M	<u>\$ 220,094</u>
	\$ 2,715,544

Schedule F-35 of the annual report listed the interest associated with this debt instrument as \$169,974 at 5.95%. Audit verified the reported interest to the amortization schedule provided by the Company.

CoBank July 2013 The long-term debt was approved by Order 25,480 on 3/27/2013. The Order approved three specific long term loans, two of which refinanced existing short term debt in the aggregate amount of \$3,925,000 and one which refinanced existing long term debt with Pennichuck Corporation in the amount of \$1,723,150.

The first loan was approved in the amount of \$1,723,150 to be financed through CoBank, with level monthly payments amortized over 20 years. The funds were intended to refinance intercompany short term debt from Pennichuck Corporation. The balance outstanding at 12/31/2019 was verified to the following two general ledger accounts:

221011-7000-001 LTD CoBank 1.7M Loan T4	\$ 1,219,154
221111-7000-001 Current Portion LTD CoBank 1.7M	<u>\$ 75,387</u>
	\$ 1,294,541

Schedule F-35 of the annual report listed the interest associated with this debt instrument as \$49,109 at 3.62%. Audit reviewed the loan amortization schedule which agreed with both the ending principal balance and the reported interest, based on a fixed annual rate of 3.62%. The level payment was noted to be \$10,158 monthly.

The second loan, approved in Commission Order 25,480, was in the amount of \$925,000 and financed through CoBank. The loan was approved to refinance intercompany long term debt with Pennichuck Corporation. The loan approval required level monthly payments to be amortized over 10 years. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221012-7000-001 LTD CoBank 925k Loan T3	\$ 666,883
221112-7000-001 Current Portion LTD CoBank 925k	<u>\$ 39,361</u>
	\$ 706,244

Schedule F-35 of the annual report listed the interest associated with this debt instrument as \$31,405 at 4.25%. Audit reviewed the loan amortization schedule which agreed with both the ending principal balance and the reported interest, based on a fixed annual rate of 4.25%. The level payment was noted to be \$5,765 monthly.

A third loan, also approved by Order 25,480 3/27/2013 was \$3,000,000 financed by Pennichuck Corporation *to replace a like amount of existing short term debt which*

had been used for capital improvements. Refer to the Intercompany Advances portion of this report for additional information.

CoBank March 2015 was approved by Commission Order 25,746, dated 12/30/2014, for two loans. The first loan was financed through CoBank, in the amount of \$625,000, with level monthly payments to be amortized over 25 years. The \$625,000 loan was used to finance capital projects undertaken in 2014.

The second loan approved by the Commission was to, *“convert existing short term debt with Pennichuck in the amount of \$1,000,000 into long-term debt with Pennichuck.”* The intercompany funds had been *“borrowed from Pennichuck in accordance with the intercompany Money Pool Agreement dated January 1, 2006. This conversion loan will call for level monthly payments, an amortization period of ten (10) years, and an annual interest rate of 2.70%.”* The CoBank balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221018-7000-001	LTD CoBank 625k loan	\$ 541,147
221118-7000-001	Current Portion LTD CoBank 625k loan	<u>\$ 16,325</u>
		\$ 557,471

Interest associated with this debt instrument was reported to be \$28,159. Audit reviewed the loan amortization schedule which agreed with both the ending principal balance and the reported interest, based on a fixed annual rate of 4.90%. The level payment was noted to be \$3,647 monthly.

Refer to the Intercompany Advances portion of this report for information regarding the approved Pennichuck borrowing.

Green Hills SRF was approved by Commission Order 23,922, dated on 2/22/2002. PEU was authorized to borrow up to \$462,000 from the Drinking Water State Revolving Loan Funds (SRF) under the terms and conditions set forth by the New Hampshire Department of Environmental Services (DES), which administers those funds, to finance improvements to the Green Hills community water system. At the end of the test year the outstanding balance was verified to the following four general ledger accounts:

221002-7000-001	LTD-SRF Loan: Green Hills	\$ 68,338
221052-7000-001	Forgivable Debt: LTD Green Hills	\$ 21,783
221102-7000-001	Current Portion LTD: Green Hills	\$ 17,325
221152-7000-001	Forgivable Debt STD Green Hills	<u>\$ 5,799</u>
		\$ 113,245

The combined total of \$113,245, for the balances on the forgivable debt accounts, agrees with the remaining principal to be forgiven. Audit verified the \$113,245 of total debt outstanding, as of 12/31/2019, to Schedule F-35 of the annual report and also to the amortization schedule provided to Audit. Throughout the 2019 test year, \$17,325 worth

of principal was paid to NH DES and confirmed to the schedule 5 of the filing, as well as to the amortization schedule.

Interest associated with this debt instrument was reported to be \$4,689. The interest amount and rate of 3.728% was verified to schedule F-35 of the annual report, as well as to schedule 5 of the filing and the amortization schedule provided by the Company. Copies of the NH DES monthly invoice summaries were reviewed, reflecting that, of the \$4,689, an amount of \$2,173 was interest paid in 2019 and \$2,516 was the 2% administrative fee for 2019 assessed by NH DES. Audit noted that the interest was calculated using 1.728% on the outstanding monthly balance and the administrative fee was calculated at 2% of the outstanding monthly balance, for a combined rate of 3.728%. Audit verified the principal, interest, and fees to copies of the monthly invoice summaries sent to PEU from the NH DES.

Pelham Tank Project SRF was approved by Commission Order 24,375, dated on 9/30/2004. The loan agreement was for up to \$750,000 to finance the construction of a water storage tank, the acquisition of land, and associated improvements at its Williamsburg Stonegate system in Pelham. The total outstanding balance at 12/31/2019 was verified to the following general ledger accounts:

221003-7000-001 LTD: SRF/Pelham Tank Project	\$ 211,716
221103-7000-001 Current Portion LTD: Pelham Tank	\$ 31,181
	\$ 242,897

Interest associated with this debt instrument was reported to be \$9,044. The interest was confirmed to schedule F-35 of the annual report, as well as to schedule 5 of the filing and the amortization schedule provided by the Company. The overall interest rate of 3.488% was also verified to the amortization schedule and to schedule F-35 of the annual report. Audit reviewed copies of the NH DES monthly invoice summaries, noting that the interest rate of 3.488% consisted of 1.488% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Copies of the NH DES monthly invoice summaries reflected that, of the \$9,044, an amount of \$3,858 was the 1.488% interest paid in 2019 and \$5,186 was the 2% administrative fee for 2019 assessed by NH DES, for the combined rate of 3.488%.

Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES. There was no principal forgiveness identified for the loan. During the 2019 test year, the total outstanding on the amortization schedule agreed with the general ledger balance of \$242,897, as well as agreeing with schedule 5 of the filing. The principal payments throughout the test year totaling \$30,114 were also confirmed to schedule 5 of the filing, as well as to the amortization schedule.

Maple Hills SRF was approved by Commission Order 24,844, dated on 4/04/2008. The Order granted PEU authority to borrow up to \$595,000 in long term debt from the SRF in order to undertake capital improvements at its Maple Hills community

water system in the Town of Derry. As of 12/31/2019, the outstanding balance was verified to the following general ledger accounts:

221004-7000-001 LTD: SRF Maple Hills	\$ 323,784
221104-7000-001 Current Portion LTD: Maple Hills	<u>\$ 29,400</u>
	\$ 353,184

The 2019 interest associated with this debt instrument was reported to be \$10,884 and confirmed to schedule F-35 of the annual report, as well as to schedule 5 of the filing and the amortization schedule provided by the Company. The principal amount repaid during the test year was \$28,543 and verified to schedule 5 of the filing and to the amortization schedule, with an interest rate of 2.952%. Audit reviewed copies of the NH DES monthly invoice summaries, noting that the overall interest rate of 2.952% consisted of .952% of the monthly outstanding balance to calculate interest and 2% of the monthly outstanding balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Birch Hill SRF was approved by Commission Order 24,739, dated on 4/13/2007. The approval was granted to Pittsfield Aqueduct, which owned the system at the time. Order 25,051 transferred the Birch Hill system to PEU, as part of the North Country systems. All related debt was also transferred. Audit verified the total outstanding debt for the Birch Hill SRF obligation, as of 12/31/2019, to the following general ledger accounts:

221005-7000-001 LTD: SRF Birch Hill	\$ 1,108,115
221105-7000-001 Current Portion LTD: Birch Hill	<u>\$ 85,263</u>
Total Outstanding Birch Hill SRF a/o 12/31/19	\$ 1,193,378

The 2019 interest associated with the Birch Hill SRF debt instrument was reported to be \$35,469 and confirmed to schedule F-35 of the annual report, as well as to schedule 5 of the filing and the amortization schedule. Audit also verified the overall interest rate of 2.864% to the amortization schedule provided by the Company and also to schedule F-35 of the annual report and the schedule 5 of filing. Audit reviewed copies of the NH DES monthly invoice summaries, noting that the overall interest rate of 2.864% consisted of .864% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES. The principal amount repaid during the test year was \$82,859 and was also confirmed to schedule 5 of the filing.

Locke Lake 2007 SRF was approved by Commission Order 24,739 on 4/13/2007. Locke Lake was part of Pittsfield Aqueduct and then transferred to PEU as part of the North Country systems approved by Order 25,051. The combined approval for Birch Hill and Locke Lake was up to \$2,500,000 for capital improvements at both systems. Audit verified the total outstanding debt for the Locke Lake 2007 SRF obligation, as of 12/31/2019, to the following general ledger accounts:

221006-7000-001	LTD SRF Locke Lake 2007	\$ 100,724
221056-7000-001	Forgivable Debt LTD Locke Lake 2007	\$ 35,092
221106-7000-001	Current Portion LTD Locke Lake 2007	\$ 12,384
221156-7000-001	Forgivable Debt STD Locke Lake 2007	<u>\$ 3,760</u>
	Total Outstanding Locke Lake 2007 SRF a/o 12/31/19	\$ 151,960

The 2019 interest associated with the Locke Lake 2007 SRF debt instrument was reported to be \$4,743, and confirmed to schedule F-35 of the annual report, as well as to schedule 5 of the filing. Audit verified the interest rate of 2.952% to the amortization schedule provided by the Company and also to schedule F-35 of the annual report and schedule 5 of the filing. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the 2.952% interest rate consists of .952% of the monthly outstanding balance to calculate interest and 2% of the monthly outstanding balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES. The principal amount paid during the year totaled \$12,325 and was confirmed to the amortization schedule and schedule 5 of the filing.

Locke Lake 2011 SRF was approved by Order 25,209 on 3/29/2011. The SRF up to \$300,000 was used to replace approximately 3,000 linear feet of water main in the company's Locke Lake water system in the Town of Barnstead. The proposed project was a continuation of needed capital improvements identified by its affiliate, PAC, to improve service at Locke Lake after it acquired the system in 2010. As of 12/31/2019, the outstanding balance was verified to the following general ledger accounts:

221007-7000-001	LTD SRF Loan Locke Lake 2011	\$ 140,602
221057-7000-001	Forgivable Debt: LTD Locke Lake 2011	\$ 74,310
221107-7000-001	Current Portion LTD Locke Lake 2011	\$ 6,999
221157-7000-001	Forgivable Debt: STD Locke Lake 2011	<u>\$ 6,025</u>
	Total Outstanding Locke Lake 2011 SRF a/o 12/31/19	\$ 227,937

Interest associated with this debt instrument was reported to be \$6,722 and confirmed to schedule F-35 of the annual report, as well as to schedule 5 of the filing and the amortization schedule. Audit also verified the interest rate of 2.864% to the amortization schedule, to F-35 of the annual report, and schedule 5 of the filing, noting that the principal amount paid during 2019 totaled \$6,427. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the overall interest rate of 2.864% consisted of .864% of the outstanding monthly balance to calculate interest and 2% of the monthly outstanding balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Liberty Tree SRF loan was approved by Order 25,248 7/7/2011 for up to \$400,000. PEU used the financing for the replacement of the original 1973 pump station and associated water storage facilities serving its Liberty Tree water system in the Town

of Raymond. Also included in the proposed project were upgraded treatment facilities and an emergency generator. As of 12/31/2019, the outstanding balance was verified to the following general ledger accounts:

221008-7000-001 LTD/SRF Loan: Liberty Tree	\$ 219,554
221058-7000-001 Forgivable Debt: Liberty Tree	\$ 99,582
221108-7000-001 Current Portion LTD Liberty Tree	\$ 8,765
221158-7000-001 Forgivable Debt STD Liberty Tree	\$ <u>7,029</u>
Total Outstanding Liberty Tree SRF a/o 12/31/19	\$ 334,930

Audit noted that the interest associated with this debt instrument was reported to be \$10,651, at an interest rate of 3.104%, and that the principal amount paid during 2019 totaled \$8,013. The 2019 interest amount, interest rate, and principal amount were all verified to Schedule F-35 of the annual report, schedule 5 of the filing, and the amortization schedule provided by the Company. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the overall interest rate of 3.104% consisted of 1.104% of the outstanding monthly balance to calculate interest and 2% of the monthly outstanding balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Locke Lake 2012 SRF loan was approved by Order 25,348 on 4/13/2012 to borrow up to \$400,000. The purpose of the financing was replacement of water mains in PEU's 850-customer Locke Lake water system. PEU originally sought to replace 8,500 linear feet of pipe, but modified it to 6,600 linear feet. The main replacement project is a continuation of SRF-funded system improvements approved in 2011. As of 12/31/2019, the outstanding balance was verified to the following general ledger accounts:

221009-7000-001 LTD SRF Locke Lake 2012	\$ 282,402
221109-7000-001 Current Portion LTD Locke Lake 2012	\$ 18,005
221159-7000-001 Forgivable Debt STD Locke Lake 2012	\$ <u>0</u>
Total Outstanding Locke Lake 2012 SRF a/o 12/31/19	\$ 300,407

Interest associated with this debt instrument was reported to be \$8,430, at an interest rate of 2.72%, and the principal amount paid during 2019 was \$17,523. The 2019 interest amount, interest rate, and principal amount were all verified to Schedule F-35 of the annual report, schedule 5 of the filing, and the amortization schedule provided by the Company. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the 2.72% overall interest rate consisted of .72% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES. For account 221159, Audit noted that there was no activity reported on the general ledger during the 2019 test year.

Locke Lake Dam Site 2 SRF loan was by Order 25,541 on 7/9/2013. The approval was for up to \$850,000 from the SRF was to be used for the Avery Estates

interconnection from Londonderry to Hudson, and to continue main replacements at Locke Lake in Barnstead. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221013-7000-001 LTD: SRF Locke Lake Dam Site Phase 2	\$ 310,686
221113-7000-001 Current Portion LTD Locke Lake Dam Site 2	<u>\$ 17,247</u>
Total Outstanding Locke Lake Dam Site 2 SRF a/o 12/31/19	\$ 327,933

The 2019 interest for the year was reported to be \$9,168, at a 2.72% interest rate, with the principal repaid for 2019 totaled \$16,785, as per the amortization schedule, schedule F-35 of the annual report, and schedule 5 of the filing. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the overall interest rate of 2.72% consisted of .72% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Locke Lake-Winwood & Monroe Phase 1 issued on 5/22/2014 was approved by Order 25,650 on 4/15/2014. The approval to borrow up to a total of \$1,522,000 from the SRF was to be used for three specific projects: replace water mains in Locke Lake; replace water mains in the W&E system; and replace the water system station in the Hardwood system. The total borrowed was \$386,755 at a rate of 2.72%. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221014-7000-001 LTD SRF Locke Lake-Winwood & Monroe Phase 1	\$ 317,074
221114-7000-001 Current Portion LTD SRF Locke Lake-Winwood & Monroe Phase 1	<u>16,229</u>
Total Outstanding Locke Lake-Winwood & Monroe Phase 1 a/o 12/31/19	\$ 33,303

Interest associated with this debt instrument was reported to be \$9,299, as per the amortization schedule, schedule F-35 of the annual report, and schedule 5 of the filing. The principal repaid for 2019 totaled \$15,794. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the overall interest rate of 2.72% consisted of .72% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Hickory and Avery SRF was approved by Order #25,541 on 7/9/2013. The approval for up to \$850,000 from the SRF, with an interest rate “*expected to be 2.72%*”, was to be used for the Avery Estates interconnection from Londonderry to Hudson, and to continue main replacements at Locke Lake in Barnstead. The total amount borrowed for the interconnection was \$422,966 at an actual interest rate of 2.616%. There is no principal forgiveness associated with this SRF. The outstanding balance at 12/31/2019 was verified to the following two general ledger accounts:

221015 LTD: SRF Loan Hickory & Avery	\$ 341,537
221115 Current Portion LTD: Hickory & Avery	<u>17,993</u>
Total Outstanding Hickory and Avery SRF a/o 12/31/19	\$ 359,529

Interest associated with this debt instrument was reported to be \$9,655 and the principal amount paid during 2019 totaled \$17,529. Copies of the NH DES monthly invoice summaries were reviewed by Audit. The overall interest rate of 2.616% was verified to the amortization schedule and in the NH DES invoice calculations, with .616% of the outstanding monthly balance used to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit confirmed the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES. Audit verified that the interest calculations reported on the NH DES monthly invoices, the NH DES invoice summaries, and the amortization schedule are for the 2.616% rate. However, schedule F-35, column E of the annual report still states the interest rate at 2.72%. Audit reviewed a letter from NH DES, dated November 9, 2015, verifying that, *“the charge rate has been reduced from 2.72% to 2.616%.”* Therefore, the Company needs to update the 2.72% interest rate, still stated on schedule F-35 of the annual report for the Hickory and Avery SRF loan, to reflect the accurate rate of 2.616%.

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W&E Main Replacement SRF was approved by Order 25,650 on 4/15/2014. The approval to borrow up to a total of \$1,522,000 from the SRF was to be used for three specific projects: replace water mains in Locke Lake; replace water mains in the W&E system; and replace the water system station in the Hardwood system. PEU requested and was authorized to borrow up to an additional \$510,000 from the SRF, with approval documented by Commission Order 25,758 on 1/21/2015. The total borrowed for the W&E main replacement was \$1,021,487. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221016 LTD: SRF Loan W&E Main Replacement	\$ 839,441
221116 Current Portion LTD W&E Main Replacement	<u>\$ 43,077</u>
Total Outstanding W&E Main Replacement SRF a/o 12/31/19	\$ 882,518

The 2019 interest reported was \$23,684 and the total principal paid for 2019 was \$41,966. Audit verified the interest amount, interest rate, and principal paid to the amortization schedule, schedule F-35 of the annual report, and schedule 5 of the filing. Copies of the NH DES monthly invoice summaries were also reviewed by Audit. The overall interest rate of 2.616% consisted of .616% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit confirmed the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Hardwood Treatment Station SRF was approved by Order 25,650 on 4/15/2014. The approval to borrow up to a total of \$1,522,000 from the SRF was to be used for three specific projects: replace water mains in Locke Lake; replace water mains in the W&E system; and replace the water system station in the Hardwood system. The total

borrowed for the Hardwood station was \$572,000. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221017 LTD: SRF Hardwood Treatment Station	\$466,664
221117 Current Portion LTD Hardwood Treatment Station	<u>\$ 24,426</u>
Total Outstanding Hardwood Treatment Station SRF a/o 12/31/19	\$ 491,091

The 2019 interest was reported to be \$12,420 and the total principal paid for 2019 was \$23,832. Audit verified the interest amount, interest rate, and principal paid to the amortization schedule, schedule F-35 of the annual report, and schedule 5 of the filing. Copies of the NH DES monthly invoice summaries were also reviewed by Audit. The overall interest rate of 2.464% consisted of .464% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit confirmed the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES.

Locke Lake Winwood/Monroe Phase 2 issued on 1/1/2016 was approved by Order 25,773 on 4/3/2015, which authorized borrowing \$400,000 from the SRF for replacement of 4,000 feet of small diameter PVC water main and 35 service connections in the Locke Lake system. The term of the loan was approved for 20 years. The outstanding balance at 12/31/2019 was verified to the following general ledger accounts:

221019 LTD SRF Locke Lake-Winwood & Monroe Phase 2	\$ 332,078
221119 Current Portion LTD Locke Lake-Winwood & Monroe Phase 2	<u>\$ 16,942</u>
Total Outstanding Locke Lake-Winwood & Monroe Phase 2 a/o 12/31/19	\$ 349,020

Audit reviewed the amortization schedule and verified the \$8,821 interest, associated with this debt instrument, to schedule 5 of the filing. Copies of the NH DES monthly invoice summaries were reviewed by Audit, noting that the overall interest rate of 2.464% consisted of .464% of the outstanding monthly balance to calculate interest and 2% of the outstanding monthly balance to calculate the administrative fee. Audit verified the principal, interest, and fees to the monthly invoice summaries sent to PEU from the NH DES. The Principal paid during 2019 totaled \$16,530 and was confirmed to schedule 5 of the filing, as well as to the amortization schedule.

Locke Lake Varney Road Order 25,890 on 4/29/2016 authorized total financing of up to \$3,850,000, with up to \$1,650,000 from the SRF used for the *“replacement of approximately 18,600 linear feet (LF) of small diameter polyvinyl chloride (PVC)/ polyethylene water main and 213 service connections in the Varney Road and Winwood area of Locke Lake (Project).”* Refer to the CoBank \$1.25M Loan T6(1) and the CoBank \$950K Loan T6(2) portion of this report for details regarding the remaining \$2,200,000, of the total \$3,850,000, authorized financing. The Locke Lake Varney Road balance was verified to the following general ledger accounts, as of 12/31/2019:

221021 LTD SRF Locke Lake Varney Rd	\$ 1,291,990
221121 Current Portion SRF Locke Lake Varney	<u>\$ 64,539</u>
Subtotal Varney Rd	<u>\$ 1,356,529</u>

Audit reviewed the loan documents, which indicated that the original loan agreement was dated 6/2/2016 for a loan of up to \$1,650,000. The total of \$1,497,202 was the final amount financed at a stated rate of 1.96%, adjusted down from the original loan 2.464%. Audit also verified the 1.96% interest rate to the loan amortization schedule and the monthly invoices from NH DES. The 2019 interest associated with the Locke Lake Varney Road debt was reported to be \$27,262, per Schedule F-35 of the annual report and the provided amortization schedule. Audit requested clarification of the calculated interest and the Company confirmed that the interest entries were based on *“the provided amortization schedules for the interest associated with the debt obligations on F-35 of the annual report.”* Audit confirmed that the monthly NH DES invoice summaries tied to the 2019 interest amount of \$27,262. Audit noted that the invoice summaries listed a 1.96% administrative fee, with a 0% loan interest and 0% construction interest. In the following statement, the Company explained the stated 0% loan interest on the invoice summaries: *“We do not separate the admin fees and interest for the SRF (NHDES) loans. The admin fee is recorded as interest expense, which is how it is shown in the attached loan agreement.”*

Audit noted that page 65 of the loan document states that the NH DES requires an independent audit in compliance with the Federal Office of Management and Budget Governmental Auditing Standards and Uniform Guidance (formerly known as an A-133 audit). A copy of the independent audit report, for the year ending 12/31/2019, was reviewed by Melanson Heath with an unmodified opinion expressed.

The total principal paid for 2019 was \$63,287. This amount was verified to the amortization schedule, as well as to schedule 5 of the filing.

The CoBank Patronage of \$(65,899) was debited to the general ledger for account 186730-7000-001, CoBank Deferred Patronage. Testimony of Larry D. Goodhue, within Docket DW 19-069 on 3/29/2019, explains the earned patronage as, *“A key cooperative principle is the return to customers of a portion of net margins based upon their use of the bank.”* Audit confirmed the amount to Schedule F-35 of the annual report and noted that Order 25,041 states that, *“If CoBank issues annual patronage refunds, those payments will reduce PEU’s interest expense and will thereby reduce the cost of the loan over the long term.”* Refer to the deferred account 186730 for the \$(26,359) equity portion of the \$(65,899) patronage. The \$(39,539) of the check represented the cash portion of the \$(65,899) patronage. The cash was debited to the accounts payable account. See also the discussion in the Deferred Debits portion of this report.

Brady Ave SRF Order 26,006, dated 4/19/17, approved *“PEU to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund...[for use of] the loan*

proceeds to fund capital investment for three water main projects in its franchise service area.” Of the approved \$3,215,000, a loan of \$570,000 was authorized for the Maple Hills water main replacement project, involving *“the replacement of approximately 2,400 linear feet of substandard water main on Brady Avenue in Derry with new 8 inch ductile piping. PEU will also replace the ‘main to stop’ section of each customer service.”* The total amount borrowed for the Brady Ave SRF loan was \$570,000 at an interest rate of 1.960% and a term of 30 years with a 10 percent forgiveness of principal. Audit reviewed the loan terms to a copy of the loan promissory note, as well as to the amortization schedule provided by the Company. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221023-7000-001	LTD: SRF/Brady Ave	\$ 490,005
221060-7000-001	Forgivable Debt: LTD Brady Ave	59,714
221123-7000-001	Current Portion LTD: SRF/Brady Ave	11,505
221160-7000-001	Forgivable Debt: STD Brady Ave	<u>2,095</u>
Total Outstanding Brady Ave SRF a/o 12/31/19		\$ 563,319

The interest for 2019 was reported to be \$12,691, per schedule F-35 of the annual report and the provided amortization schedule. Audit verified monthly interest payments to copies of the NH DES invoices. The total principal paid for 2019 was \$5,633 and was also verified to the invoice summaries and amortization schedule.

Merrimack River Crossing SRF Order 26,006, dated 4/19/17, approved *“PEU to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund...[for use of] the loan proceeds to fund capital investment for three water main projects in its franchise service area.”* Of the approved \$3,215,000, a loan of \$2,400,000 was authorized for the PEU/PWW Interconnection project, involving the installation of *“a pipeline between Daniel Webster highway on the west side of the Merrimack River and Charles Bancroft Highway on the east side of the river. The pipeline will connect the distribution main owned by PWW in the Town of Merrimack to the existing PEU distribution system in the Town of Litchfield. The project includes the installation of water mains east and west of the Merrimack River; a water main crossing of the river; installation of a 1.5 million gallon pumping facility; and the installation of 1,400 linear feet of main to connect to the Litchfield distribution system.”* The amortization schedule was reviewed by Audit, verifying the total amount borrowed for the Merrimack River Crossing SRF loan was \$2,400,000 with a loan term of 20 years at an interest rate of 1.960%. Audit also reviewed a copy of the loan promissory note. The balance outstanding at 12/31/2019 was confirmed to the following general ledger accounts:

221024-7000-001	LTD: SRF/Merrimack River Crossing	\$ 2,267,573
221124-7000-001	Current Portion LTD: SRF/Merrimack River Crossing	<u>99,644</u>
Total Outstanding Merrimack River Crossing SRF a/o 12/31/19		\$2,367,217

The interest for 2019 was reported to be \$48,880 per schedule F-35 of the annual report, as well as the amortization schedule and the monthly NH DES invoices. The total

principal paid for 2019 was \$32,783 and was also verified to the NH DES invoices and amortization schedule.

CoBank 1.25M Loan T6(1) Order #25,890, dated 4/29/16, approved PEU to borrow “\$2,200,000 from CoBank to reimburse PEU for \$ 1,100,000 in capital investment in 2015 and prefund 2016 capital projects not eligible for SRF funding.” The loan proceeds were issued in two tranches. The first, \$1,250,000, was disbursed to PEU on July 20, 2016 with a 25 year term noted at the fixed rate of 4.20%. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221020 LTD CoBank 1.25M Portion of 2.2M T6 Loan	\$ 1,127,734
221120 Current Portion LTD CoBank 1.25M portion of 2.2M Loan	<u>\$ 32,440</u>
Subtotal CoBank 2.2M	<u>\$ 1,160,174</u>

The CoBank 1.25M loan interest was reported to be \$50,198, per schedule F-35 of the annual report. Audit verified the interest to the invoices from the NH DES and the provided amortization schedule. The total principal paid for 2019 was \$31,223. Audit reviewed the CoBank billing statements and the loan amortization schedule which agreed with both the ending principal balance and the reported interest, based on a fixed annual rate of 4.20%. The level payment was noted to be \$6,785 monthly.

CoBank 950K Loan T6 (2) Order #25,890, dated 4/29/16, approved PEU to borrow “\$2,200,000 from CoBank to reimburse PEU for \$ 1,100,000 in capital investment in 2015 and prefund 2016 capital projects not eligible for SRF funding.” The loan proceeds were issued in two tranches, with the second of the two tranches, \$950,000, disbursed to PEU on December 13, 2016. Page five of the loan agreements indicated an interest rate of 4.83% with a maturity date of December 2041. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221022-7000-001 LTD: CoBank 950K Portion of 2.2M Loan T6 (2)	\$ 864,334
221122-7000-001 Current Portion LTD: CoBank 950K Portion-2.2M Loan	<u>22,921</u>
Total Outstanding a/o 12/31/19	\$ 887,255

The interest for 2019 was reported to be \$44,092 per schedule F-35 of the annual report, as well as the amortization schedule and copies of the CoBank billing statements. The total principal paid for 2019 was \$21,945 and was also verified to the billing statements and amortization schedule.

CoBank 350K Loan Order 26,117, dated 3/30/18, approved “a term loan of up to \$500,000” with financings from CoBank. Approximately \$368,844 of the \$500,000 CoBank Loan “would finance 2017 capital improvements for a number of specific projects, routine maintenance capital projects, and nonrecurring capital expenditures ineligible for State Revolving Fund (SRF) financing. PEU would apply the loan funds to a number of projects: replacements of and/or upgrades to water treatment facilities to comply with state and federal drinking water regulations, replacement of aging infrastructure, and water supply and quality improvement projects for PEU’s stand-alone

community water systems. The remaining \$131,156 of the loan would provide contingency funds for unforeseen capital projects in 2017.” Audit verified the loan term to the amortization schedule, noting a maturity date of 5/31/2043 with an interest rate of 5.33%. Copies of the monthly CoBank billing statements were reviewed by Audit, confirming the loan interest rate and monthly payments to the amortization schedule.

Audit noted that per Order 26,117, the Company anticipated interest payments at an estimated 3.25%. The Company explained the actual interest rate of 5.33% by stating that, “The basis for the interest rates on loans with CoBank, as well as all other commercial lenders, is dependent upon market interest rates that “float” and are redetermined on a basis of frequency. With regards to the CoBank loans, the loan is able to be locked into a fixed rate at closing, based upon the most recent Weekly Quoted Variable Rate (WQVR). At the time of the testimony upon which this loan was approved, the current WQVR was 3.25%, but it was indicated that this rate would continue to float until approval was granted under that financing petition, and the loan was closed upon. In the interim, as those factors were waited upon, the WQVR available had adjusted to 5.33% as of the closing date on this loan.”

The general ledger was reviewed by Audit. The balance outstanding at 12/31/2019 was verified to the following accounts:

221025-7000-001	LTD: CoBank 350K Loan	\$ 331,796
221125-7000-001	Current Portion LTD: CoBank 350K Loan	<u>7,372</u>
	Total Outstanding a/o 12/31/19	\$ 339,168

The interest for 2019 was reported to be \$18,556 per schedule F-35 of the annual report, as well as the amortization schedule and copies of the CoBank billing statements. The total principal paid for 2019 was \$7,034 and was also verified to the billing statements and amortization schedule.

Hillcrest Road SRF Order #26,006, dated 4/19/17, approved “PEU to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund...[for use of] the loan proceeds to fund capital investment for three water main projects in its franchise service area.” Of the approved \$3,215,000, a loan of \$245,000 was authorized for the Hillcrest Road water main replacement project, involving “the replacement of approximately 1,200 linear feet of deteriorating water main on Hillcrest road in Litchfield with new high density polyethylene pipe. PEU has noted significant deterioration of the current pipe which is adjacent to wetlands and other corrosive soils. The new pipe will be less resistant to corrosion.” Audit reviewed the amortization schedule, noting the total amount borrowed for the Hillcrest Road SRF loan was \$245,000 at an interest rate of 1.960% and a loan term of 20 years. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221026-7000-001	LTD: SRF/Hillcrest Road	\$ 228,692
221126-7000-001	Current Portion LTD: SRF/Hillcrest Road	<u>10,049</u>
	Total Outstanding a/o 12/31/19	\$ 238,741

The interest for 2019 was reported to be \$4,750 per schedule F-35 of the annual report, as well as the amortization schedule and monthly NH DES invoices. The total principal paid for 2019 was \$3,306 and was also verified to the invoice summaries and amortization schedule. Audit noted that schedule F-35 reported “TBD” for the loan date of issue and date of maturity, columns (b) and (c) respectively. The Company stated that, *“This information was unintentionally missed on the annual report. This information will be updated for the 2020 Annual report filing.”*

Locke Lake Georgetown Main Replacement Order #26,189, dated 11/6/18, approved *“a loan of up to \$4,240,000 from the Drinking Water State Revolving Loan Fund (SRF), which is administered by the New Hampshire Department of Environmental Services (DES). The loan will finance three projects at the Company’s Locke Lake Community Water System (Locke Lake System) in Barnstead: (1) development of a surface water source in response to a DES corrective action plan; (2) diversion to alternative arsenic treatment for PEU’s Airstrip Well; and (3) replacement of a section of water main in the Georgetown Drive area of the Locke Lake System.”* The Locke Lake Georgetown Main Replacement project financing represent a portion of the \$4.24M NH DES SRF loan approved in Order 26,189, in response to DW 18-132 associated with the Georgetown water main replacement work that was completed in 2019. Audit verified the loan terms, which include a 30-year repayment and a maximum interest rate of 2.704 percent, to a copy of the loan agreement provided by the Company. The actual interest rate of the financing, however, would be determined at the time the loan is closed. The Company explained that, *“This loan is still open, so there currently is no interest rate.”* Of the \$4,240,000 approved loan, \$975,000 would finance the Georgetown Drive Water Main Replacement project, in order to replace approximately 7,800 feet of water main in the Georgetown Drive area of the Locke Lake System. The balance outstanding at 12/31/2019 was verified to the following general ledger account:

221027-7000-001	LTD: SRF/Locke Lake Georgetown Main Replacement	<u>\$ 958,333</u>
	Total Outstanding a/o 12/31/19	\$ 958,333

The interest for 2019 was reported to be the accrual amount of \$1,520 on schedule F-35 of the annual report. Audit also verified the accrued interest expense to the loan amortization schedule provided by the Company. Audit noted that schedule F-35 reported “TBD” for the loan date of issue and date of maturity, columns (b) and (c) respectively. The Company stated that, *“This information was unintentionally missed on the annual report. This information will be updated for the 2020 Annual report filing.”*

Locke Lake Surface Water Supply The second project at the Company’s Locke Lake Community Water System in Barnstead, to be financed by a loan of \$4,240,000 from the Drinking Water State Revolving Loan Fund (SRF) and approved in Order

26,189, was for the “*development of a surface water source in response to a DES corrective action plan.*” Audit reviewed the Order, noting the loan terms include a 30-year repayment and a maximum interest rate of 2.704 percent. Audit reviewed a copy of the promissory note, confirming the 2.704% interest, per Order 26,189. The actual interest rate of the financing, however, would be determined at the time the loan is closed. The Company explained that, “*This loan is still open, so there currently is no interest rate.*” Of the \$4,240,000 approved loan, \$2,600,000 would finance the Locke Lake Surface water Supply project. The balance outstanding at 12/31/2019 was verified to the following general ledger account:

221029-7000-001	LTD: SRF/Locke Lake Surface Water Supply	<u>\$ 128,105</u>
	Total Outstanding a/o 12/31/19	\$ 128,105

Audit reviewed the entry on the account for \$128,105, described as the NH DES reimbursement #1. The Company verified that the transaction “*is the first disbursement of [the \$2,600,000] loan.*” A copy of the first disbursement request letter, dated July 3, 2019, was provided by the Company and reviewed by Audit.

The interest for 2019 was reported to be \$534 on schedule F-35 of the annual report. Audit also verified the interest expense to the loan amortization schedule provided by the Company. Audit noted that schedule F-35 reported “TBD” for the loan date of issue and date of maturity, columns (b) and (c) respectively. The Company stated that, “*This information was unintentionally missed on the annual report. This information will be updated for the 2020 Annual report filing.*”

CoBank 1.153M Loan T9 On 9/20/19, a Staff Recommendation within Docket DW 19-035 for the petition for approval of the 2019 Qualified Capital Project Adjustment Charge (QCPAC), documented that PEU closed on a term loan with CoBank, ACB, in the amount of \$1,153,000 for a term of 25 years and at an interest rate of 4.38%. “*The loan proceeds were used to repay Fixed Asset Line of Credit (FALOC) monies borrowed during 2018 for capital projects for that year, which were placed in service by December 31, 2018.*” Audit reviewed a copy of the loan agreement provided by the Company and verified the loan terms. The balance outstanding at 12/31/2019 was verified to the following general ledger accounts:

221030-7000-001	LTD: COBANK 1.153M Loan T9	\$ 1,118,551
221130-7000-001	Current Portion LTD: COBANK 1.153M LoanT9	<u>26,028</u>
	Total Outstanding a/o 12/31/19	\$ 1,144,579

The interest for 2019 was reported to be \$18,326 per schedule F-35 of the annual report and the amortization schedule provided by the Company. The total principal paid for 2019 was \$8,421. Audit verified the interest and principal amounts to copies of the monthly CoBank billing statements and amortization schedule.

Intercompany Advances \$(2,766,663)

Signed on March 30, 2018, Order 26,117 authorized the conversion of “*three intercompany loans totaling \$2,858,919 into two 30-year loans.*” Audit verified the \$2,766,663 intercompany debt total, noted on page 17 of the PUC annual report for account 223, Advances from Associated Companies, as well as to Schedule 6 of the filing. The following represents the general ledger accounts’ 2019 year-end balances, comprising the intercompany advances:

223206-7000-001	Note Payable - PCP 2018 1.7M Loan	\$(1,610,471)
223207-7000-001	Note Payable - PCP 2018 1.1M Loan	(1,095,473)
223216-7000-001	ST Note Payable - PCP 2018 1.7M Loan	(36,137)
223217-7000-001	ST Note Payable - PCP 2018 1.1M Loan	<u>(24,581)</u>
	Total Advances from Associated Companies	\$(2,766,663)

Commission Order 25,820 authorized the Company to have a short-term debt limit of 18 percent of net book value of plant in service through 6/30/2019. On June 20, 2019, “*PEU filed a petition for a permanent waiver of Puc 608.05, requesting a short-term debt limit of 18 percent.*” The Company also filed a motion for the temporary extension of Order No. 25,820, “*until the Commission ruled on its petition.*” In a secretarial letter, dated July 3, 2019, the Commission granted the Company’s motion for a temporary waiver of Puc 608.05, allowing a temporary extension for the short term debt limit of 18 percent. On November 27, 2019, Commission Order 26,311 authorized the Company “*to incur short-term debt up to 18 percent of its net fixed plant until June 30, 2023.*” Audit reviewed the short-term debt threshold calculation spreadsheet. As of 12/31/19, the Company reported short-term debt as 13.54% of the net book value of plant in service. Audit confirms that the Company complied with the Commission Order authorizing the debt limit of 18%.

One of the conditions of the Order was inclusion of the monthly balances of the short-term debt with the annual reports. The Company provided an Excel workbook containing the spreadsheets of the monthly balances of the intercompany debt, as compiled from the years 2017 through 2019. Audit reviewed the monthly balances on the debt accounts, verifying the \$2,766,663 balance, as of 12/31/19, for the Intercompany Advances.

Schedule 2A of the filing for the Advances from Associated Companies, account 223, reported a balance of \$(8,169,417). Audit noted the \$(5,402,754) variance between the annual report total of \$(2,766,663) for account 223 and the filing, schedule 2A, total of \$(8,169,417) for account 223. The following represents the general ledger account balances that were also included with the 223 accounts’ total intercompany advances amount of \$(8,169,417), as reported on Schedule 2A of the filing:

233300-7000-001	Interco PAY/REC: PEU/PCP	\$ (5,402,754)
233400-7000-001	Interco PAY/REC: PEU/TSC	-
233500-7000-001	Interco PAY/REC: PEU/PWS	-
233600-7000-001	Interco PAY/REC: PEU/PAC	-
233700-7000-001	Interco PAY/REC: PEU/PWW	-
233800-7000-001	AP Interco PAY/REC: PEU/PAC	-
	Total Accounts Payable to Associated Co.	\$ (5,402,754)

Audit noted that the filing Schedule 2A included the current liability balance of \$(5,402,754) from the intercompany Accounts Payable to Associated Co. (233) accounts within the long-term debt balance of \$(8,169,417) for the Advances from Associated Co. (223). The filing's inclusion of the short-term (233) account balance within the long-term intercompany advances' balance, created a \$(5,402,754) variance between the annual report amount of \$(2,766,663) for the Advances from Associated Companies and the filing amount of \$(8,169,417) for the long-term intercompany advances. **Audit Issue #9**

Audit reviewed the debt payment schedule for the intercompany loan, totaling \$2,766,663. The interest rate was noted at the 3.2%, as approved in Order 26,117.

Originally, Order 25,480 dated 3/27/2013 approved \$3,000,000 to be financed by Pennichuck Corporation to replace a like amount of existing short term debt which had been used for capital improvements. This loan, subordinate to the CoBank debt, called for level monthly payments over 10 years at an annual interest rate of 2.65%. On March 30, 2018, Order 26,117 authorized the refinancing of three intercompany loans, totaling \$2,858,919, into two 30-year loans. *"The first loan would encompass two previous loans totaling \$1,701,516...and convert them into a 30-year loan at an interest rate of 3.2 percent."* Refer to the Note Payable sections for accounts 223207 and 223217 for details regarding the third loan authorized in Order 26,117. A spreadsheet containing the 2018 monthly balances for the intercompany loans was reviewed by Audit. The balance of the first two loans totaled \$1,624,020, as of April 30, 2018. Audit verified the balanced for the loans being refinanced to the following general ledger accounts:

223202-7000-001	Note Payable PCP 2013 3M Loan	\$ 1,321,568
223212-7000-001	Current Portion LTD 3M PCP NP	<u>302,452</u>
	Total as of 4/30/2018	\$ 1,624,020

Audit verified that the refinanced Note Payable accounts 223202 and 223212 had a 12/31/19 balance of \$0 and have no activity recorded for the 2019 test year. The Company confirmed that, *"[Accounts] 223202 & 223212 (LT & ST \$3M loan) were paid off in May of 2018 with new loans in the amount of \$1.7M (223206 LT & 223216 ST) & \$1.1M (223207 LT & 223217 ST)."* Audit reviewed the new loan agreements for both the \$1.7M and \$1.1M loans, as well as the notice of the May 1, 2018 payoff of the \$3M loan, authorized in Order 25,480. The actual amount funded for the loans was verified to the May 2018 accounts and totaled \$1,701,516, as per Order 26,117. Audit inquired about the \$77,735 variance between the \$1,701,516 funded for the loan and the

\$1,624,020 balance, as of 4/30/18, on Note Payable accounts 223202 and 223212. In response, the Company provided the loan amortization schedule, explaining the variance in the following statement: *“The order was originally filed at the beginning of 2017, included the balance as of 12/31/16. The order was approved on March 30, 2018...[and the] journal entries were completed in the May 2018 close. The difference [was the] additional principal payments made on the refinanced loans.”* Audit reviewed the loan amortization schedule, verifying the additional principal payments.

223206-7000-001 Note Payable - PCP 2018 1.7M Loan \$(1,610,471)

The first two loans, authorized on March 30, 2018 in Order 26,117, *“sought to refinance two 10-year intercompany loans with Pennichuck totaling \$1,701,516, and convert them into a 30-year loan at an interest rate of 3.2 percent.”* Refer to the following section on account 223207 for details regarding the authorization for the refinance of the third intercompany loan.

The general ledger activity within account 223206-7000-001, Note Payable – PCP 2018 1.7M Loan, reflected monthly debits, averaging \$2,916, for the principal payment of notes payable to PCP. Monthly true-up entries were booked between the long term debt and the current portion, account 223216-7000-001, ST Note Payable - PCP 2018 1.7M Loan. Over the course of the test year, the balance in the account decreased from \$1,646,609 to \$1,610,471. Monthly offsetting entries for the payment of notes payable to PCP were booked on account 233300-7000-001, Intercompany Payable/Receivable PEU/PCP. The payments were also verified to the loan amortization schedule.

Audit reviewed the detailed journal entry for a January payment of notes payable to PCP, in the amount of \$2,874, which was also verified to the amortization schedule. Interest associated with this debt instrument was calculated by Audit to be \$53,301, based on the amortization schedule, with the monthly interest included in account 427115-7100-001, Intercompany Interest. Audit verified the account transactions on the general ledger to the loan payment schedule provided by the Company.

223207-7000-001 Note Payable - PCP 2018 1.1M Loan \$(1,095,473)

Refer to the previous section for the Note Payable account 223206 regarding details about the March 30, 2018, Order 26,117, authorizing the refinancing of three intercompany loans into two 30-year loans. Account 223207 represents the third intercompany loan refinanced via Order 26,117 and totaling \$1,157,403 for *“capital improvements made at PEU’s North Country Systems.”* A spreadsheet containing the 2018 monthly balances for the intercompany loan being refinanced was reviewed by Audit. The balance of the loans totaled \$719,893, as of April 30, 2018. Audit verified the balances for the loans to be refinanced to the following general ledger accounts:

223203-7000-001	LT Note Payable: PCP-2014 1M Loan	\$	623,903
223213-7000-001	ST Note Payable: PCP-2015 1M Loan		<u>95,963</u>
	Total as of 4/30/2018	\$	719,893

Audit verified that the refinanced Note Payable accounts 223203 and 223213 had a 12/31/19 balance of \$0 and have no activity recorded for the 2019 test year, due to accounts 223203 (LT) and 223213 (ST) being paid off in May 2018 with a new loan in the amount of \$1.1M (223207 LT & 223217 ST). Audit reviewed the new loan agreements for both the \$1.7M and \$1.1M loans, as well as the notice of the May 1, 2018 payoff of the \$3M loan, authorized in Order 25,480. The actual amount funded for the loans was verified to the May 2018 account balances on the loan amortization schedule and totaled \$1,157,403, as per Order 26,117. Audit inquired about the \$437,509 variance between the \$1,157,403 funded for the loan and the \$719,893 balance, as of 4/30/18, on Note Payable accounts 223203 and 223213. The Company explained the variance in the following statement: *“The order was originally filed at the beginning of 2017, included the balance as of 12/31/16. The order was approved on March 30, 2018...[and the] journal entries were completed in the May 2018 close. The difference [was the] additional principal payments made on the refinanced loans.”* Audit reviewed the loan amortization schedule, verifying the additional principal payments.

The general ledger activity within account 223207-7000-001, Note Payable – PCP 2018 1.1M Loan, reflected monthly debits averaging \$1,984 for the principal payment of notes payable to PCP. Offsetting credits were posted to account 233300-7000-001, Intercompany Pay/Rec PEU/PCO. The payments were also verified to the amortization schedule.

Audit reviewed the detailed journal entry for an August payment of notes payable to PCP, in the amount of \$1,992, which was also verified to the amortization schedule. Monthly true-up entries were booked between the long term debt and the current portion, account 223217-7000-001, ST Note Payable - PCP 2018 1.1M Loan. Over the course of the test year, the balance in the 223207 account decreased from \$1,120,054 to \$1,095,473. Interest associated with this debt instrument was calculated by Audit to be \$36,256, based on the amortization schedule, with the monthly interest included in account 427115-7100-001, Intercompany Interest. Audit verified the account transactions on the general ledger to the loan payment schedule provided by the Company.

223216-7000-001 ST Note Payable - PCP 2018 1.7M Loan \$(36,137)

The general ledger for account 223216-7000-001 was reviewed. There were twelve monthly true up entries averaging \$95 and offset to the long term portion for account 223206-7000-001 Note Payable - PCP 2018 1.7M Loan. The liability account increased over the course of the 2019 test year, with a beginning balance of \$35,001 on 1/1/19, to an ending balance of \$36,137 on 12/31/19.

223217-7000-001 ST Note Payable - PCP 2018 1.1M Loan \$(24,581)

Audit reviewed the general ledger for account 223217-7000-001. There were twelve monthly true up entries averaging \$64 and offset to the long term portion for

account 223207-7000-001 Note Payable - PCP 2018 1.1M Loan. The liability account increased over the course of the 2019 test year, with a beginning balance of \$23,808 on 1/1/19, to an ending balance of \$24,581 on 12/31/19.

233300-7000-001 Interco PAY/REC: PEU/PCP \$(5,402,754)

Activity within the 233300 Intercompany Payable/Receivable PEU/PCP account was reviewed. Audit noted there were monthly transactions for reclassifications of cash to the PCP, management fees, intercompany interest, bank fees, and payments for the \$1.7M and \$1.1M notes payable. The intercompany accounts with zero balances all had activity throughout the year which was transferred to account 233300-7000-001 at year-end. The following represents the close-out intercompany account balance transactions made on 1/31/19:

	<u>Debit</u>	<u>Credit</u>
233500-7000-001	\$ 5	
233600-7000-001		\$ 1,117
233700-7000-001	1,882,057	
233800-7000-001		13,216
233300-7000-001		<u>1,867,729</u>
Total JE	<u>\$1,882,062</u>	<u>\$1,882,062</u>

The detailed journal entry for a \$4,740 management fee, posted to the account on 1/31/19, was reviewed by Audit. The Company also provided the 2019 Summary of Allocated Costs report, and Audit verified the Pennichuck portion of the management fee expense. The management fees and bank fees were offset to accounts 930500-7109-001, Intercompany Management Fee – PCP, and 903100-7108-001, Billing and Accounting, respectively. There were twelve monthly notes payable payments of \$5,005 which were offset to account 427115-7100-001, Intercompany Interest, for the interest portion and to account 223207-7000-001, Note Payable - PCP 2018 1.1M Loan, for the principal.

Other Long Term Debt \$353,393

The Other Long Term Debt balance, reported on Schedule 2A of the filing, was verified to the general ledger account 224100-7000-001, Other Liability: Derivative. Entries noted in the account during the year are offset 60% to account 219000-7000-001, Other Comprehensive Income, with the remaining 40% offset to account 282201-7000-001, Deferred Income Tax-SWAP. SFAS 133, Accounting for Derivative Instruments and Hedging Activities, outlines that derivative instruments should be measured at fair value with adjustments to the carrying amount reflecting changes to the fair value that are attributable to the risk being hedged. Refer to the Equity, Paid-in-Capital portion of this report for additional information.

Audit requested the supporting documentation for the September 2019 adjusting debit entry, in the amount of \$42,022. The credits were allocated and posted to the following two accounts: 40% to account 282201-7000-001, Deferred Income Tax – SWAP, totaling \$16,809; and 60% to account 219000-7000-001, Other Comprehensive

Income, totaling \$25,213. The entry was based on the 9/30/2019 mark-to-market (MTM) valuation letter to PEU from CoBank. The 9/30/19 balance on account 224100-7000-001, Other Liability: Derivative, totaled \$451,352. The 9/30/19 MTM balance of \$409,330, which included the accrued interest of \$4,442, was verified to the valuation letter. Audit confirmed that the difference, between the general ledger balance of \$451,352 and the MTM balance of \$409,330, accounted for the \$42,022 FAS 133 adjustment.

CoBank Master Loan Agreement

Audit requested and was provided with a copy of the Master Loan Agreement between PEU and CoBank dated 2/9/2010. The Agreement outlines the method of disbursement of any loan, method of repayment (wire or ACH); equity security; guaranty of Pennichuck Corporation for all notes; agreed upon conditions; representations and warranties; affirmative covenants; negative covenants; financial covenants including a debt service coverage ratio of not less than 1.25 to 1.0, and total capitalization ratio of not more than .65 to 1.0; events of default; remedies upon default; and other miscellaneous terms.

Interest Expense \$913,077

Audit verified the total interest expense to the PUC annual report. Interest expensed during the test year was verified to the following general ledger account balances:

427115-7100-001	Intercompany Interest	\$ 256,267
427200-7100-001	Line of Credit Interest	53,573
427300-7100-001	Interest Exp: Bonds & Notes	<u>603,237</u>
	Total Interest Expense	\$ 913,077

The filing schedule 5, PEU Weighted Average Cost of Long-Term Debt for the twelve months ended December 31, 2019, includes a footnote which states “*The annual interest expense is calculated based on the outstanding balance at year end multiplied by the stated interest rate. The calculated interest expense will differ from interest expense recorded in the test year due to loan repayments made during the year.*” As such, the total annual interest reported on the Schedule 5 of the filing is \$816,749.

427115-7100-001 Intercompany Interest \$256,267

The general ledger for account 427115-7100-001, Intercompany Interest, reported a 2019 year-end balance of \$256,267. Monthly debits were recorded for the intercompany interest related to a loan PCP Note Payable for \$1.7M and \$1.1M, authorized on March 30, 2018 in Order 26,117, from PCP to PAC and for intercompany interest for payable/receivables with other subsidiaries (PCP, PWW, PEU, PWS or TSC).

Audit requested clarification regarding how the interest is calculated. The Company explained that they use amortization schedules for the monthly calculation of the 3.2% interest on the balance in the intercompany accounts. The amortization schedule for the intercompany loan was provided by the Company and Audit verified the interest calculations at 3.2%, as approved in Commission Order #26,117. One of the intercompany interest entries, in the amount of \$14,881, was recorded on 1/31/19. Audit reviewed the supporting monthly interest calculation, allocation report, and detailed journal entry, verifying the offsetting accounts for the PEU/PCP interest entry of \$14,422 to 233300, Intercompany Pay/Rec: PEU/PCP, and the PEU/PWW allocation of \$459 to account 233700, Intercompany Pay/Rec: PEU/PWW.

427200-7100-001 Line of Credit Interest \$53,573

Audit reviewed the general ledger for the Line of Credit Interest account. The CoBank billing statements were reviewed by Audit, relating to the payment of the debt accounts for PEU. Clarification regarding how the CoBank interest payments are calculated was requested by Audit. The Company explained that the interest is calculated daily on the balance and Audit recalculated the interest on several of the CoBank billing statements. Twelve monthly debits recorded were to accrue the interest expense on the FALOC transactions, paid through the CoBank monthly loan payments, with offsetting credit entries to account 241300, Miscellaneous Current Accrued Liability.

427300-7100-001 Interest Expense: Bonds & Notes \$603,237

The general ledger for the Interest Expense: Bonds & Notes account reported a 2019 year-end balance of \$603,237, which ties to the interest reported for the year on Schedule F-35 of the annual report. Monthly transactions on the account were for the CoBank monthly loan payments, as well as monthly interest accruals on the long term debt with offsetting entries to account 237110, Accrued Interest LTD, and true-up entries. Audit reviewed the amortization schedule and interest summary for the long term debt obligation, noting the monthly total interest for each loan for PEU and the accuracy of the true-up entries. The CoBank billing statements were also reviewed by Audit, relating to the CoBank payment of the debt accounts for PEU. Audit verified the billed interest to the monthly debits on the account, with offsetting credit entries to account 231000, Accounts Payable.

Other Liabilities

Current and Accrued Liabilities \$7,035,434

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

231000-7000-001	Accounts Payable	\$ 175,689
231111-7000-001	A/P	1,715
231222-7000-001	A/P - CWIP	2,621
232100-7000-001	Fixed Asset Line of Credit	995,881
233300-7000-001	Interco PAY/REC: PEU/PCP	5,402,754
237110-7000-001	Accrued Interest	16,334
241300-7000-001	Misc Current Accrued Liability	161,259
241350-7000-001	Accrued Liability – Retainage	36,314
235300-7000-001	Deposits – Litchfield Project Escrow	23,620
235350-7000-001	Deposits - Merrimack Source DEV	219,247
	Total Current and Accrued Liabilities	<u>\$ 7,035,434</u>

The filing schedule 2A reported the current liabilities total of \$636,799, resulting in a \$6,398,635 variance between the total Current and Accrued Liabilities listed on the annual report as compared to the total reported on the filing. Schedule 2A of the filing reported the Current Liabilities as consisting of the \$180,025 balance for the Accounts Payable (231), the \$242,867 balance for the Customer Deposits (235), the \$16,334 of Accrued Interest (237), and the \$197,573 balance for the Other Accrued Expenses (241). Audit noted that the Fixed Asset Line of Credit (232) balance of \$995,881 and the intercompany account (233) balance of \$5,402,754, totaled \$6,398,635 and were reported on page 17 of the annual report as Notes payable and Accounts Payable to Associated Co., respectively.

The filing schedule 2A included the identified variance total of \$6,398,635, for both of the 232 and 233 accounts, within the Bonds/Notes/Mortgages (221) and Intercompany Advances (223) balances of \$21,074,432 and \$8,169,417, respectively. Refer to the Intercompany Advances section for details regarding the rolling of the current liability intercompany Accounts Payable to Associated Co. (233) accounts' balance of \$5,402,754 with the long term debt balance of \$2,766,663 for the Advances from Associated Companies (223), into the total \$8,169,417 reported on Schedule 2A of the filing, for the Intercompany Advances (223). Audit also noted that the Company included the current liability balance of \$995,881 for account 232100, Fixed Asset Line of Credit, with the long term debt balance of \$20,078,551 for the Bonds (221), within the total \$21,074,432 reported on Schedule 2A of the filing, for the Bonds/Notes/Mortgages (221).

Accounts Payable \$180,025

The total Accounts Payable of \$180,025 reported on Schedule 2A the filing was verified to the PUC annual report, as well as to the general ledger. The Accounts Payable balance as of 12/31/2019 was confirmed to the following general ledger accounts:

231000-7000-001	Accounts Payable	\$ 175,689
231111-7000-001	A/P	1,715
231222-7000-001	A/P - CWIP	<u>2,621</u>
	Total Accounts Payable	\$ 180,025

Audit reviewed the reconciliation of the aged accounts payable listing to the general ledger, confirming that all payables were current. The following detail represents the account activity comprising the Accounts Payable total of \$180,025.

231000-7000-001 Accounts Payable \$ 175,689

Audit reviewed the general ledger for account 231000-7000-001, Accounts Payable, selecting eight transactions to review in detail. The Company provided the requested supporting documentation for each of Audit's selections. The total \$92,338 for the eight payables reviewed, represents 53% of the general ledger balance. The following detail depicts Audit's review of the Accounts Payable journal entry selections:

- One payable to Granite State Analytical Services, in the amount of \$3,528, was verified to a February invoice. Services provided were laboratory and technical for a Locke Lake pilot study. The debit was booked on 2/22/19 to account 105444, CWIP: Contractor Clearing – Other.
- One payable to USA Blue Book, in the amount of \$1,286, was verified to a copy of the invoice, as well as the product packing slip. Supplies and materials purchased were a replacement Pen Arm kit and a GLI differential pH probe for use in the North Country location. The debit was booked on 3/12/19 to account 626100, Oper Exp T Plant: Mat & Exp.
- One payable to BCM Environmental & Land Law, PLLC, in the amount of \$3,008, was verified to a March invoice. The legal services provided were for deeds and the legal position regarding the ability to place a pipe in the lake, as well as activities on common land pertaining to work order #1900433. The debit was booked on 3/18/19 to account 105444, CWIP: Contractor Clearing – Other.
- One payable to Gordon T. Burke & Sons, Inc., in the amount of \$4,511, was verified to a copy of the invoice. Contracting services were for the repair of a water line and back fill on Acorn Link, involving the mobilization of equipment, tools, and materials. The debit was booked on 4/16/19 to account 673001 Maint Mains: Repairs.
- Two payables to the City of Manchester, one in the amount of \$21,374 and the other in the amount of \$35,045, were verified to a copies of a May and an August invoice, respectively. Service for both charges was performed at Mammoth Rd. in Londonderry, for consumption of 11,907 CCF between the dates of 3/26/19 – 4/25/19 for the May invoice and for consumption of 25,402 CCF between the dates of 6/25/19 – 7/26/19 for the August invoice. The debits for the May and August services were booked on 5/31/19 and 8/31/19, to account 602200 Purchase Water: COHAS.
- One payable to Panciocco Law, LLC, in the amount of \$8,164, was verified to a November invoice. The legal services provided were for research, finalizing, and filing a motion for rehearing with Londonderry ZBA, as well as appraisal services

pertaining to work order 1901641. The debit was booked on 11/30/19 to account 105444, CWIP: Contractor Clearing – Other.

- One payable to Underwood Engineers, in the amount of \$15,422, was verified to a November invoice. Services provided were for engineering for the final design and bidding assistance of one 1.25 MG composite elevated water storage tank in Londonderry. The debit was booked on 12/16/19 to account 105444, CWIP: Contractor Clearing – Other.

231111-7000-001 A/P \$1,715

The general ledger for the A/P account reported a 2019 year-end balance of \$1,715. The Company clarified that, *“The 231111 account was set up for payment of the non-material operating related expenses. This account was needed in order to assure that any payments that were related to the MOERR (923000-7105 is an example of an account) accounts were paid from our Operating Checking account, not the MOERR Account.”* There were ten credits for the PEU QCPAC petition with offsetting debit entries to account 923000-7109-001, Outside Services. Audit reviewed the supporting invoice from Rath, Young and Pignatelli, for the QCPAC petition expense, with no exceptions identified. Audit noted one January and one February transaction for private fire protection, totaling \$2,419, as well as one transaction for TCI subpoena through April 2019. Copies of invoices for the February private fire protection transaction and the TCI subpoena transaction were requested. The Company provided the invoices and Audit noted no exceptions.

231222-7000-001 A/P – CWIP \$2,621

The activity within the A/P – CWIP account was reviewed by Audit. Transactions on the account are related to all payments that will be reimbursed through the Company’s fixed asset line of credit. Meter sets were recorded each month, as well as transactions for weekly cash collections. One transaction, totaling \$2,115 and described as “2019-015 Hardwood”, was offset to account 105222-7000-001, CWIP: Contractor Clearing. Audit reviewed the supporting invoice from Power Up Generator Service Co., verifying the cost for the replacement of the generator control unit ‘hardwood’ that had failed to shut down. Audit also reviewed the Inspection of Services report for the September meter sets, confirming two 10/14/19 journal entries in the amount of \$453 and \$1,621. The meter sets were for the ElkrIDGE Construction and the Stable Companies of Litchfield, respectively.

Monthly transactions were noted on the CWIP account that were offset to account 131385-7000-001, Material Operating Expense Revenue Requirement (MOERR), noting that the authorization of the MOERR was verified in Order 26,179. Audit selected one of these transactions, totaling \$33,013, and reviewed the supporting invoice from Tighe & Bond. Services listed on the invoice were for construction administration, such as engineers, designers, the project manager, and administrative support related to the conceptual design of an interconnecting pipeline linking Pennichuck Water Works to

Pennichuck East Utility within the Merrimack community. Audit requested the overhead rates that were in effect during the 2019 test-year for labor, general construction and engineering. The Company stated that, *“For 2019, the Union overhead rate was 63.24% and the general overhead rate was 2%. It is intended to capture the cost of benefits for Union employees and is derived by an analysis of the employee’s benefits which is reviewed / revised annually.”* Audit reviewed the expense detail for the construction professional personnel and recalculated the hourly rates. No exceptions were noted.

232100-7000-001 Fixed Asset Line of Credit \$995,881

Audit reviewed the activity within the account, noting monthly credits for the advance on the fixed asset line of credit (FALOC). There was one debit in July and another debit in August, totaling \$1,208,757 in debits on the account for the 2019 test year. The entries were offset to account 131375-7000-001, DSRR 1.0 RSF for the FALOC payment. Commission Order 26,253 authorizes, *“Pennichuck East Utility to borrow \$1,297,379 from CoBank to replace short-term obligations to a line of credit with long-term debt.”*

233300-7000-001 Interco PAY/REC: PEU/PCP \$5,402,754

Audit tied the 2019 general ledger balance for the Intercompany PAY/REC: PEU/PCP to page 17, line 20 of the annual report, as well as to the filing 1604.01(a)(1), Tab 17. Refer to the Intercompany Advances section of the report for further detail on the account activity.

237110-7000-001 Accrued Interest \$16,334

The accrued interest figure on Schedule 2A of the filing was verified to the PUC annual report and general ledger account 237110-7000-001. The Company provided with the monthly intercompany interest calculation, per the amortization schedule. Audit verified the recorded monthly accrued interest expense calculated on the amortization schedule, as booked monthly to the Accrued Interest account. Offsetting entries were recorded to account 427300, Interest Expense: Bonds and Notes.

241xxx-7000-001 Other Accrued Expenses \$197,573

Audit verified the Other Accrued Expenses balance, as listed on page 17 of the PUC annual report, to the filing schedule 2A. The following two general ledger accounts comprise the total \$197,573 in Other Accrued Expenses:

241300-7000-001	Miscellaneous Current Accrued Liability	\$161,259
241350-7000-001	Accrued Liability-Retainage	<u>36,314</u>
	Total Other Accrued Expenses	\$ 197,573

241300-7000-001 Miscellaneous Current Accrued Liability \$161,259

Activity within the account was reviewed. Monthly journal entries were to accrue accounts payable for PEU, as well as accruing the water purchase for select towns. Audit selected two transactions to review in detail and the Company provided copies of the supporting invoices, detailed journal entries, and month-end accrual documentation. One entry in the amount of \$6,494, recorded on 6/30/19, was described as accruing the purchase of water for Birch Hill. Audit reviewed the supporting detailed journal entry and the utility service bill for the expense. The offsetting entry was booked to account 602300, Purchased Water: Birch Hill, and confirmed as an auto reversing entry. The other journal entry reviewed in detail, totaling \$3,630, was for the accrual of development installed services. Audit reviewed the supporting inspection of services report, as well as the detailed journal entry. The offsetting entry was booked to account 333250, Dev Installed Services: Paid, and confirmed as an auto reversing entry.

241350-7000-001 Accrued Liability – Retainage \$36,314

The activity within this account was noted as having a beginning credit balance of \$86,122. Debits of \$136,505 and credits of \$86,696 were posted to the account, resulting in the ending credit balance of \$36,314.

Audit selected two transactions to review in detail and the Company provided copies of the supporting invoices, detailed journal entries, and month-end accrual documentation. One entry in the amount of \$9,908, recorded on 5/8/19, was for materials, equipment, and labor used for pump, pipe, demolition, and electrical work at the Merrimack River Crossing Booster Station. Audit reviewed the supporting contractor’s invoice from PRB Construction, as well as the contractor application. The offsetting entry was booked to account 231222, A/P – CWIP. The other journal entry reviewed in detail, totaling \$54,564, was for the final retainage release from George Cairns & Sons for work at the Merrimack River Water Main Crossing project. Audit reviewed the application for payment, as well as the final retainage release document. The offsetting entry was booked to account 231000, Accounts Payable.

235xxx-7000-001 Customer Deposits \$242,867

The Customer Deposits total was verified to the PUC annual report, as well as to Schedule 2A of the filing. The \$242,867 balance was confirmed to the following general ledger accounts:

235300-7000-001	Deposits – Litchfield Project Escrow	\$ 23,620
235350-7000-001	Deposits - Merrimack Source DEV	<u>219,247</u>
	Total Customer Deposits	\$ 242,867

235300-7000-001 Deposits – Litchfield Project Escrow \$23,620

PEU maintains a contract with Saint-Gobain, to work on the expansion of the Company’s public water infrastructure in the town of Litchfield, NH, due to PFoA contamination. The contract with Saint-Gobain required PEU to directly enter into contracts with eight different firms for the installation of the water mains and service line infrastructure and provides for advanced escrow funding to be maintained by Saint-Gobain with a NY bank, for project costs in advance of them being expended. The contract also provides for monthly submission of invoices from the contractors to Saint-Gobain by PEU, the monthly approval of the invoices by Saint-Gobain, and the monthly funding of the cost of the invoices from Saint-Gobain’s escrow funds to PEU in advance of the due date for payment of the invoices, preventing PEU from bearing any cost of funds for any of the work.

Audit reviewed two transactions on the account with offsetting entries to account 141400-7000-001, A/R Miscellaneous. The entries were posted on 8/31/19 for the re-class of Saint-Gobain charges. The detailed journal entry, as well as the detail of labor charges, was reviewed.

235350-7000-001 Deposits - Merrimack Source DEV \$219,247

Audit reviewed the general ledger detail. Credit entries were made approximately each month for cash management. Offsetting entries were verified to cash account 131140-7000-001.

Deferred Income Taxes \$4,823,913

The total deferred income tax figure noted on the filing was verified to the PUC annual report and the following two general ledger accounts:

282200-7000-001	Deferred Income Taxes	\$4,661,286
282201-7000-001	Deferred Income Tax-Swap	\$ (141,357)
283100-7000-001	Deferred Income Tax-Reg. Liability	<u>\$ 1,620,743</u>
	Net Deferred Income Taxes	\$ 6,140,672

Refer to the Other Long Term Debt portion of this report regarding the Deferred Income Tax-Swap account and activity.

REVENUE

Revenue reported on the filing schedule 1 in the amount of \$8,819,088 was verified to the PUC annual report as well as to the following general ledger accounts.

460100-7100-001: Water Sales: Billed Capital Recovery Surcharge	\$	(181,603)
460200-7100-001: CBFRR Revenues	\$	(926,309)
460998-7100-001: CBFRR Revenues - Contra	\$	926,309
461000-7100-001: Water Sales: Billed Revenue	\$	(7,201,673)
461001-7100-001: Water Sales: Billed Recoupment	\$	(479,696)
461100-7100-001: Water Sales: Unbilled Revenue	\$	(20,031)
461200-7100-001: Water Sales: Unbilled Recoupment	\$	479,864
462000-7100-001: Fire Protection Revenue	\$	(1,278,880)
<hr/>		
Total Water Sales Less QCPAC Revenue	\$	(8,682,019)
471100-7100-001: QCPAC Surcharge Revenue	\$	(106,881)
471300-7100-001: Miscellaneous Operating Revenue	\$	(30,188)
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	\$	(137,069)
<hr/>		
Total Revenues	\$	(8,819,088)

The Capital Recovery Surcharge represents capital costs incurred when Pennichuck took over three small water systems and invested in the infrastructure of each. Dockets DW 08-052 and DW 09-051 approved the surcharge per settlement agreement dated 9/25/2009 and approved by Order 25,051. Specifically, the surcharge per system per customer was authorized over 30 years to be:

<u>Service Area</u>	<u>Current Rate</u>	<u>Customers</u>	<u>2019 Surcharge</u>
Barnstead: Locke Lake	12.81	896	\$ 137,733
North Conway: Birch Hill	12.81	216	\$ 33,204
Middleton: Sunrise Estates	10.74	85	\$ 10,955
<hr/>			
Total 12-Month Surcharge			\$ 181,891
Filing Schedule 1C			\$ 181,603
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Variance			\$ 288

The City Bond Fixed Revenue Requirement (CBFRR) is a revenue recovery mechanism established to ensure that funds are available for the city to pay the bond taken to purchase the Pennichuck Corporation. Audit verified that twelve months of the monthly CBFRR requirements at approximately \$(77,192) per month to sum to \$(926,309) which was noted in the general ledger. Refer to Docket DW 11-026.

Metered Sales in account 461000-7100-001 represent Billed Revenue and totaled \$7,201,673 on the general ledger. Ten abatement debits were also reviewed. The abatements represent cancel/rebills, or adjustments such as correcting for an estimated bill vs. actual meter read.

Account 461001-7100-001, Water Sales Billed Recoupment, represents the authorized amount of the difference between temporary and permanent rates related to docket DW 17-128. The recovery period was authorized by Order 26,222 for a 12-month period. The general ledger shows 12 monthly credit entries totaling \$(479,911) and two debits entries totaling \$215 described as a correction to MUNIS Interface. The ending balance totaled \$(479,696). The offsetting entries to the recoupment charges are posted to account 141000-7000-001 - A/R Billed Water Revenue.

Account 471300-7100-001 Miscellaneous Service Revenue in the amount of \$30,188 is for tariff fees billed to customers such as return check fee, initiation of service fee, service connection, collection charge, and disconnection service fees.

Account 461100-7100-001 Unbilled Revenue totaled \$(20,031). This is the difference between the 2019 beginning year unbilled revenue of \$553,616 and the 2019 unbilled revenue total of \$573,647 in account 173150-7000-001 unbilled revenue.

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Special Customer Contracts

In order no. 26,049 dated August 23, 2017, PEU entered into a special contract with PWW to provide wholesale water service to PEU for a period of 20 years at a non-tariffed rate, and for PEU to pay PWW for the costs associated with the interconnection needed to supply PEU with water and other charges related to the special contract. The agreement was executed on October 10, 2018 and stated that PEU will pay a base monthly fee of \$10,101 and can be adjusted in the event of a new cost of service study approved by the NHPUC. PEU shall also pay a fixed annual rate of \$121,213, a volumetric rate of \$1.2635 per 100 cubic feet and a fixed monthly meter charge of \$38.75 per month. This rate can also be adjusted at the same time any future change in volumetric rates and the approval by the NHPUC.

In order no. 26,285 dated August 9, 2019 approved a special contract between PEU and Pillsbury Realty Development, LLC. This contract is a cost sharing agreement that enables PEU to collect its portion of the cost to construct 1.1 million gallon water tank that serve Woodmont Commons in Londonderry.

An agreement was entered into on August 5, 2008 between PEU and PWW and called the Maple Hills Water System Interconnection Agreement. This agreement is for the purchase of water from the Town of Derry which operates a municipal water system

whose source of supply is Manchester Water Works. The rates are set by the Derry Town Council for all Derry Water System residential customers.

The Hookset Village Water Precinct (HVWP) purchased water agreement is an agreement between PEU and the HVWP to purchase water for PEU customers in the Town of Hookset. Order no. 25,708 approved PEU's request to expand its franchise to two rest areas located along the Interstate 93 in the Town of Hookset.

Tariff Review

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

Audit reviewed seventeen customer bills from December 2019 including several with large past due balances. Per the Company, two of the 2019 sampled accounts were written off in October of 2020. The Company also stated that there were no active payment plans for the sampled accounts. The consumption charges and meter charges were matched to the tariff and recalculated with no exceptions noted.

For the North Country systems, the bills reflected a meter charge and a consumption charge of \$7.51 per 100 cubic feet. The monthly usage charges were accurately calculated for those selections tested. Meter charges were also verified to the tariff Twentieth Revised page 38 without exception.

PEU customers outside of the North Country systems reflected the accurate meter charges noted on the Twentieth revised page 38, and consumption charges of \$7.51 per 100 cubic feet. Public fire protection charges, which vary by town, were verified to the respective tariff pages without exception.

The recovery of PEU Rate Case expenses was noted on each bill and consisted of a charge in the amount of \$0.57 per month for 12 months for all the customers. The surcharge is based on rate case expenses of \$55,402.32 to be recovered from 8,037 customers over 12 months per NHPUC Order no. 26,222, dated February 26, 2019 ($\$55,402.32/8,037/12=\0.574)

Backflow testing charges were noted on 2 bills and is calculated using the Company's hourly labor rate plus any additional equipment usage. Also noted on one bill was a charge described as Watertight Monthly.

One customer bill reviewed showed a charge for the Watertight Protection Plan. The plan is for PEU to provide complete coverage for the repair and replacement of leaking water service connections from the property line to the outlet of the first fitting

downstream of the water meter in the basement. Effective January 1, 2019 the charge was \$78 per year or \$6.50 monthly which was shown on the bill.

Operations and Maintenance (O&M) Expenses \$6,046,869

Audit verified the \$6,046,869 balance for the Operations and Maintenance Expenses to the operating expense accounts in Schedule 1 of the filing, as well as to page 19, line 3, of the annual report. The following test year proforma adjustments were also noted on Schedule 1 of the filing:

	<u>a/o 12/2019</u>	<u>proforma</u>
Production	\$ 2,257,199	\$ 44,567
Transmission and Distribution	1,006,231	(277,276)
Customer Accounting and Collection	204,718	(5,733)
Administrative and General	181,461	(8,241)
Interdivisional Management Fee	<u>2,397,261</u>	<u>(42,053)</u>
	\$ 6,046,869	\$ (288,736)

Audit reviewed the detailed general ledger activity for the Operation and Maintenance Expense accounts. The following accounts depict the general ledger activity detail comprising the Operation and Maintenance Expenses, as verified to the schedule F-48 of the Annual Report:

Production Expenses \$2,257,199 are comprised of the following account balances:

601100-7105-001 Other Production Labor \$29,889

The total Other Production Labor expense for 2019 increased by 63% from the preceding year-end expense. The Company explained that, *“This increase was primarily attributed to increased time and labor associated with daily visits to inspect the Merrimack River Booster Station which was operated only in the late fall of 2018 versus a full year in 2019.”* Monthly entries were noted, and the 2/28/2019 entry of \$5,572 was selected for detailed review. The Company provided copies of the work order detail report, as well as a schedule for the overhead rate calculation. Audit noted that the labor had an overhead rate of 66.78%.

The work order detail report reflected a total labor amount of \$2,737.67, a labor amount with the 66.78% overhead rate applied of \$4,565.89, and the trucking amount of \$1,007, resulting in a total expense of \$5,572.39. Audit recalculated the overhead rate and total expense, verifying it to the journal entry. Audit requested clarification for the basis for the overhead rate calculations. The Company stated that because the entry was booked in February, *“The prior year [overhead] rate was applied.”*

602xxx-7105-001 Purchased Water \$1,018,049

The total purchased water amount of \$1,018,049 was verified to fourteen individual general ledger accounts, as well as to the annual report and DLW Exh 1 of the

filing. The percentage change over the 2018 year-end balance total of the accounts is 8%.

Audit reviewed the detailed general ledger for the purchased water accounts. Six accounts are expensed as incurred, seven of the accounts reflect monthly accruals with offsetting entries booked as invoices are received, and one account was a trucking company used as needed. Audit requested clarification of the types of entries noted. The Company explained that, *“Those accounts with no monthly accruals do received a bill each month; if a bill is not received an accrual would be processed. For the 602 accounts with accruals each month, we base this on the prior year’s quarterly invoices.”*

623xxx-7105-001 Fuel or Power Purchased for Pumping \$337,595

The total Fuel or Power Purchased for Pumping of \$337,595 was reviewed and verified to forty-two general ledger accounts. The 2019 year-end account balance indicates an 8% increase from the preceding year-end balance. The transactions within the accounts were reviewed and noted to be payments and accruals relating to electric company invoices. Although each account represents varying electricity usage, the overall average for the year was noted to be \$8,038, or \$670 per month. Audit reviewed seven journal entries, consisting of entries from each quarter within 2019. Copies of electric bills from Unitil, Liberty Utilities, Eversource, NH Electric Co-op, and Constellation were provided in support of the journal entries reviewed. No exceptions were noted.

626xxx-7105-001 Miscellaneous Expenses \$15,383

The total Miscellaneous Expenses reported for 2019 represents a decrease of 38% from the preceding year. The Company explained that, *“This decrease was primarily due to a decline in the purchase of various materials in 2019 versus 2018.”* Audit verified the \$15,383 balance in Miscellaneous Expenses to the following two general ledger accounts:

626100-7105-001	Oper Exp T Plant: Mat & Exp	\$ 4,334
626120-7105-001	Oper Exp SCADA & Alarm Mstr Dialer	<u>11,049</u>
	Total Miscellaneous Expenses	\$ 15,383

626100-7105-001 Oper Exp T Plant: Mat & Exp \$4,334

The general ledger transactions were reviewed for the account. Audit noted thirteen debit entries, recorded approximately each month, for a propane refill, supplies, and a battery pack.

626120-7105-001 Oper Exp SCADA & Alarm Mstr Dialer \$11,049

Audit reviewed the general ledger and observed monthly entries for prepaid expenses. The journal entries were approximately \$1,146 per month for the payment of a tower rental lease.

631xxx-7105-001 Maintenance of Structures and Improvements \$11,812

The 2019 year-end total of \$11,812 represents a 47% increase over the preceding year-end balance. The Company explained that, *“This increase is due increased levels of labor working on maintenance of structures in 2019 in comparison to 2018.”* Audit verified the total to the following two general ledger accounts:

631100-7105-001	Maintenance of Structure: Booster Stat	\$ 11,812
631500-7105-001	Maintenance of Structure: Source/ Supply	<u> -</u>
	Total Maint of Structure and Improvements	\$ 11,812

Monthly activity on the account was typically less than \$400 per transaction. Journal entries were recorded for maintenance and improvements supplies and services, such as plowing at the pump house, motor assembly, lock set, and supplies.

633xxx-7105-001 Maintenance of Pumping Equipment \$683,819

The total Maintenance of Structures and Improvements was reviewed and verified to eight individual general ledger accounts without exception. Materials and expenses, such as generator batteries and the installation of Magstarter for a well, were noted in one account. Monthly phone expenses, gas/oil/propane expenses, and general maintenance expenses were noted at the booster stations for the other accounts. For the year 2019, the Maintenance of Pumping Equipment expenses total represents an increase of 4% over the preceding year-end balance.

641xxx-7105-001 Chemicals \$87,745

The 2019 for the Chemicals accounts was reviewed and verified to nine individual general ledger accounts without exception. The \$87,745 total represents an increase of 17% over the 2018 year-end balance.

Monthly entries were noted on the accounts for chemical expenses, such as sodium hypochlorite, calcium chloride, and potassium chloride. Audit reviewed a copy of the work order detail report, with a finish date of 10/1/19, for a journal entry dated 9/30/19 and in the amount of \$18,121. The entry posted to account 641190-7105-001, Arsenic Media Replacement, for the purchase of 41 units at \$441.97 each. Audit inquired as to the frequency of changing the Arsenic Media Replacement filters and the Company explained that the process is done several times during each year. The specific function of the Arsenic Media Replacement filters was further detailed by the Company in the following statement:

“The filter media used to remove arsenic from the water is an adsorptive media. The media (based on volume of the media in the filter) can remove a fixed amount of arsenic before it can no longer absorb the arsenic from the raw water. Once the arsenic media can no longer absorb any more arsenic the media is removed from the filter and disposed of at a licensed landfill and replaced with new adsorptive media...The more arsenic there is in the raw water the more frequent the media change outs. A typical two tank design is sized so that each tank will remove 6 to 12 months of arsenic before the media is exhausted and needs to be changed out.”

Audit understands that the replacement of the arsenic media, used to remove arsenic from the water, is part of the maintenance of the filter and needs to be replaced frequently to maintain the filter’s function. The Arsenic Media Replacement journal entry was recorded on September 30, 2019. Audit verified with the Company that the Arsenic Media Replacements were used and removed from inventory in September of 2019.

642xxx-7105-001 Operation Labor and Expenses \$51,051

Operation Labor and Expenses total was verified to the following two general ledger accounts without exception: 642200-7105-001, Laboratory Expenses and 642205-7105-001, Lab Expense: Outside Testing. Activity in the accounts included vendor invoices, lab fees, and accruals. Entries on both accounts were less than \$1,900 with the typical single entry being less than \$500. The total for the year represented a decrease of 23% from the preceding year-end balance.

652220-7501-001 Maintenance Proc. Equip: SCADA & Other \$21,856

Audit reviewed the detailed general ledger for account 652220-7501-001 with no exceptions. Activity in the account included entries for a tower rental lease, programming changes, and monthly prepaid expenses. The 2019 year-end balance represents an 11% decrease over the preceding year.

Transmission and Distribution Expenses \$1,006,231 is comprised of the following account balances:

663xxx-7106-001 Meter Expenses \$163,377

The total 2019 Meter Expenses were verified to the following two general ledger accounts: 663100-7106-001, Meter Operating Labor & Exp. with a balance of \$154,624 and 663101-7106-001, Mole: Meter Removal with a balance of \$8,753. The sum of the two accounts represents an increase of 89% from the preceding year-end balance. The Company explained the increase by stating that, *“This increase was primarily due to the fact that labor associated with the annual meter pull and test program was capitalized in 2018 (so it did not hit an expense account) because the meters being pulled in 2018 were lead based brass and those meters were being replaced with a new lead free brass meter*

while the meter associated with the annual meter pull and test program was expensed in 2019 because the meters being pulled were lead free brass and they were being replaced with existing, stock meters that had been pulled from service, tested and returned to service.” Account 663100, Meter Operating Labor and Exp., reflected twelve monthly entries for PEU maintenance, as well as nine entries for water meter testing. Account 663101, Meter Removal, reflected twelve monthly entries, averaging \$730 per month, relating to PEU maintenance.

664200-7106-001 Other Expense on Customer Premises \$7,706

Audit reviewed the detailed general ledger for account 664200-7106-001. Activity recorded within the 2019 test year was for eleven leak credit entries booked as debits to this expense account. Offsetting credit entries for the leak credits were to account 141000-7000-001, A/R: Billed Water Revenue. The \$7,706 year-end balance represents a decrease of 5% from the 2018 year-end expense total.

673xxx-7106-001 Maintenance of Transmission and Distribution Mains \$408,838

The 2019 total of \$408,838 for Maintenance of Transmission and Distribution Mains represents a 37% increase over the preceding year-end balance. The Company explained the increase by stating that, *“This increase was primarily due to increased flushing in Londonderry associated with distribution water quality causing the loss of chloramine residual in the Londonderry core system. Additionally, Main repair expenses were up as the Company continued its focus on finding and repairing main leaks.”* Audit verified the total to the following five general ledger accounts:

673001-7106-001	Maintenance Mains: Repairs	\$ 211,331
673002-7106-001	Maintenance Mains: Gate Program	51,255
673003-7106-001	Maintenance Mains: Flushing	118,187
673004-7106-001	Maintenance Gates: Inspection	27,632
673005-7106-001	Maintenance Mains: WESCO Master Meter Vault	<u>433</u>
	Total Maintenance of Transmission & Distrib Mains	\$ 408,838

Within account 673001, Maintenance of Mains: Repairs was a January entry in the amount of \$26,902.37 for which Audit requested supporting documentation. The Company provided a copy of the work order detail report, as well as an allocation of benefits spreadsheet for the overhead rate used. Costs for the use of a backhoe, dump truck, van, labor, overhead, and inventory were detailed on the work order. The overhead rate was noted at 66.78% of labor. Audit recalculated the overhead rate with no exceptions. The remaining four general ledger accounts for the Maintenance of Transmission and Distribution Mains were reviewed by Audit. Activity within the accounts included monthly entries for maintenance and/or supplies.

675000-7106-001 Maintenance: Services \$264,299

The 2019 total for the year represents an increase over the 2018 year-end balance of 32%. Audit reviewed the detailed general ledger for the Maintenance: Services account. Entries included vendor invoices, intercompany petty cash reimbursements from PEU to PWW, accruals, and PEU Maintenance entries. A September entry in the amount of \$37,130 was selected for detailed review. The Company provided a copy of the work order detail report, as well as an allocation of benefits spreadsheet for the overhead rate used. Costs for the use of a backhoe, dump truck, van, compressor, labor, overhead, and inventory were detailed on the work order. The overhead rate was noted at 63.24% of labor. Audit recalculated the overhead rate with no exceptions.

676000-7106-001 Maintenance: Meters \$10,595

The Maintenance: Meters account decreased 34% over the prior year's ending balance. Twelve transactions in the general ledger account reflect monthly entries for PEU maintenance.

677xxx-7106-001 Maintenance of Hydrants \$94,774

The Maintenance of Hydrants total was verified to four specific general ledger accounts. The sum represents an increase of 33% over the 2018 year-end balance. The four accounts for the Maintenance of Hydrants were reviewed, including General Maintenance, Hydrants Painting, Hydrants Inspection, and Hydrants Repairs.

The 677000 General Maintenance: Hydrants account reflected a year-end balance of \$62,355 with monthly entries for PEU maintenance. Audit requested supporting documentation for the March 2019 entry in the amount of \$12,145. The Company provided a copy of the work order detail report, as well as an allocation of benefits spreadsheet for the overhead rate used. Costs for the use of a backhoe, truck, labor, overhead, and inventory were detailed on the work order. The overhead rate was noted at 66.78% of labor. Audit recalculated the overhead rate with no exceptions. The Repairs account reported a year-end balance of \$236 and consisted of four immaterial entries for 2019. Audit also reviewed the Painting and Inspection accounts, noting a total of seventeen journal entries between the two, for either paint or PEU maintenance.

678000-7106-001 Monitor Contractors Marking \$56,641

The 2019 year-end balance represents an increase of 6% from the preceding year-end balance. The general ledger activity reflected twelve monthly maintenance entries. Audit requested supporting documentation for the highest dollar entry, posted for April 2019, in the amount of \$6,303. The Company provided a copy of the work order detail report, as well as an allocation of benefits spreadsheet for the overhead rate used. Costs for the use of a truck, van, labor, and overhead were detailed on the work order. The overhead rate was noted at 63.24% of labor. Audit recalculated the overhead rate with no exceptions.

Customer Account & Collection Expense \$204,718 is comprised of the following general ledger accounts:

902xxx-7108-001 Meter Reading Expenses \$58,102

The total Meter Reading Expenses were verified to three individual general ledger accounts without exception. The combined balance represents a decrease of 6% from the prior year-end. The following depicts the Meter Reading Expenses general ledger account balances:

902001-7108-001	Meter Reading	\$ 29,535
902098-7108-001	Meter Reading: Transfers	22,884
902099-7108-001	Meter Reading: Exceptions	<u>5,683</u>
	Total Meter Reading Expense	\$ 58,102

The general ledger activity for all three accounts was reviewed by Audit. Journal entries were done monthly on each account for PEU maintenance. The activity was considered immaterial, and further testing was not done.

903xxx-7108-001 Customer Records and Collection Expense \$121,515

The total for the Customer Records and Collection Expense was noted on Schedule F-48 of the PUC annual report, account 903. The 2019 balance of \$121,515 represents a decrease of 1% from the prior year. Audit verified the total to the following three general ledger accounts:

902400-7108-001	Water Ban	\$ 11,673
903000-7108-001	Customer Orders: Collections	21,789
903100-7108-001	Billing and Accounting	<u>88,053</u>
	Total Customer Records & Collection Exp.	\$ 121,515

Audit noted the inclusion of the balance on the 902 account, Water Ban, within the 903 account balance of \$121,515, as reported on Schedule F-48 of the annual report. The Company explained the inclusion of the 902 account balance with the 903 account balance by stating that, *“The 902 account should have been recorded in the 903400 account for PEU, but was not completed by year end, as a result we included the 902400 as part of the 903 accounts.”* The general ledger activity for account 902400-7108-001, Water Ban, was reviewed. There were a total of five entries for PEU Maintenance, as well as one \$15 entry for petty cash.

Activity within account 903000-7108-001, Customer Orders: Collections, reflected four quarterly entries to allocate office time for shut-offs. There were also eleven monthly entries for PEU maintenance. Account 903100-7108-001, Billing and Accounting reflected monthly entries for disconnects, as well as bank fees charged from PCP to PWW/PEU/PAC and the monthly re-class of postage from PWW.

904000-7108-001 Uncollectible Accounts \$25,101

The Uncollectible Accounts balance represents a 58% increase from the preceding year-end balance. The Company explained the increase by stating that, *“This reflects the fact that more accounts went to collections in 2019 versus 2018 and more accounts reached a point of being written off as uncollectable in 2019 vs. 2018 based on the Company’s procedures (which did not change between 2018 and 2019) in dealing with delinquent accounts.”* The general ledger account contained twelve monthly entries to adjust the allowance. The uncollected receivable figure represents 4% of the total receivables at year-end. Refer to the Accounts Receivable section for further details regarding the Uncollectible Accounts.

Administrative & General Expense \$181,461 is comprised of the following general ledger accounts:

921xxx-7109-001 Office Supplies and Other Expenses \$7,298

The total for Office Supplies and Other Expenses was verified to two individual general ledger accounts without exception. Activity in the accounts included monthly postage and phone entries. The total for the year was a reduction of 1% from 2018 year-end balance.

923000-7109-001 Outside Services \$23,260

Audit reviewed the general ledger detail for account 923000-7109-001, Outside Services. Journal entries were for accruals and the monthly wire transfer fees for CoBank loan payments, as well as ten entries for the QCPAC petition. The year-end balance represents a decrease of 28% from the 2018 year-end balance.

924000-7109-001 Insurance Expense \$105,017

The 2019 Insurance Expense year-end balance of \$105,017 reflects a 3% increase from the preceding year-end balance. The general ledger balance for the Insurance Expense account tied to the annual report, as well as to schedule 1, attachment E of the filing. Audit verified the general ledger recurring entries to a spreadsheet which detailed the allocations of the insurance policies across all Pennichuck entities as appropriate. Audit also requested and was provided with the insurance binders/cover sheets which outlined the terms of the policies and the premiums. Insurance purchased at the corporate level totaled \$806,528 for the 2019 test year.

Type of Coverage	Total Premium	PEU
Worker's Compensation	\$120,793	15.05%
Auto	\$86,482	2.56%
General Liability & Employee Benefits Liability	\$258,521	14.78%
Crime	\$3,126	19.98%
Commercial Property (includes Inland Marine of \$1,403)	\$105,208	14.24%
Boiler and Machinery	\$10,410	19.98%
Excess Liability (Umbrella)	\$162,442	14.78%
D&O/EPL/Fiduciary (Management Liability)	\$33,376	0.00%
Cyber	\$12,743	19.98%
Pollution	\$13,427	14.89%
Totals	\$806,528	13.00%

PEU's allocation of the \$806,528 insurance coverage total was \$104,841. Throughout the 2019 test year, monthly premium debit entries of approximately \$8,737 were booked to the expense account and offset to account 162100-7000-001, Prepaid Insurance, for a total of \$105,017 in premium debits booked to account 924000. Audit noted a \$176 variance between the \$104,841 amount reflected on the insurance allocation spreadsheet and the \$105,017 of premium debits recorded on the account. The Company explained the variance is due to a bond insurance policy recorded on the account. Audit reviewed the account reconciliation for the prepaid insurance, noting that the monthly premiums booked to account 924000 included the bond insurance and accounted for the \$175 variance between the \$104,841 amount reflected on the insurance allocation and the \$105,017 premium debits booked to the account for 2019.

928000-7109-001 Regulatory Commission Expenses \$30,129

Audit verified the 2019 year-end balance of \$30,129, for the Regulatory Commission Expenses account, to the general ledger and Schedule 1, Attachment E, of the filing. The PUC Assessment Booklet (reviewed on the NH PUC website) was also reviewed by Audit, noting the quarterly payments for the state fiscal years, ending 6/30/2019 and 6/30/2020, in order to determine the calendar year expense for 2019 as follows:

3 rd Quarter FY 2019	\$ 7,462
4 th Quarter FY 2019	7,462
1 st Quarter FY 2020	6,678
2 nd Quarter FY 2020	<u>8,527</u>
Total Calendar Year 2019	\$ 30,129

930xxx-7109-001 Miscellaneous General Expenses \$15,757

The 2019 year-end total for the Miscellaneous General Expenses was verified to the following three general ledger accounts:

930102-7109-001	Licensing Fees	\$ 11,525
930200-7109-001	Public Relations	4,604
930400-7109-001	Miscellaneous General Expenses	<u>(372)</u>
	Total Miscellaneous General Expenses	\$ 15,757

The \$15,757 combined balance on the three accounts represents a 5% decrease from the preceding year. Audit verified transactions on the Public Relations account, noting entries for postage, postcards, and other stationary supplies. The general ledger activity was also reviewed for the Licensing Fees and Miscellaneous General Expense accounts. Audit confirmed twelve debits on the Licensing Fees account, each averaging \$960 for the monthly prepaid expense, as well a transaction on the Miscellaneous account, totaling \$101, for annual report filing fees. There was no significant change in the year-end balances on the accounts from 2018 to 2019.

Within the schedule F-48 of the PUC annual report, the \$15,757 sum for the Miscellaneous General Expenses and the \$2,397,261 sum of the Inter-Division Management Fees reflected below, are noted as the total \$2,413,018 Miscellaneous General Expenses without exception. That combined total represents an increase of 2% over the 2018 balance of \$2,373,518.

Inter-Division Management Fee \$2,397,261 is comprised of the following general ledger accounts:

930500	Interco Mgmt Fee PCP Allocation of <u>Corporate Costs</u>	\$ 58,359
930510	Interco Mgmt Fee PWW Allocation of <u>Return on common Assets</u>	212,374
930510	Interco Mgmt Fee PWW Allocation of <u>PWW Work Order costs</u>	470,260
930510,	Interco Mgmt Fee PWW Allocation of <u>Management Fee</u>	<u>1,656,268</u>
	Total Account 930510	\$ 2,338,902

Audit verified the allocation factors related to PAC, reported in Tab 34 of the filing, as depicted within the Allocation Factors section of this report. The following represents further details regarding the intercompany management fee accounts:

930500-7109-001 Intercompany Management Fee: PCP \$58,359

The 2019 year-end balance for the Intercompany Management Fee: PCP reflected the \$58,359 of the total allocation from Pennichuck Corporation to all subsidiaries, \$296,836. Audit reviewed the general ledger, noting monthly transactions to record the management fee from PCP. The PEU portion was verified without exception. Refer to the Allocation Factors portion of this report.

930510-7109-001 Intercompany Management Fee: PWW \$2,338,902

PWW reflected a year-end total of \$2,338,902. Audit reviewed the general ledger, noting monthly transactions to record the management fee from PWW. The

allocated portion was recalculated without exception. Refer to the Allocation Factors portion of this report.

Payroll

Pennichuck Corporation and the subsidiaries do not have any employees of their own. Rather, all employees are employed by PWW, with monthly intercompany transfers performed to allocate the payroll costs to each subsidiary. Refer to the Allocations portion of this report for specific information. PWW direct charges labor as incurred.

Audit requested and was provided with the Union contract in place during the test year. The contract is summarized:

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

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

2018	employee contribution	18.0%	PWW	82.0%
2019	employee contribution	18.5%	PWW	81.5%
2020	employee contribution	19.0%	PWW	81.0%
- A Pension Plan for Employees of Pennichuck Corporation, effective 6/1/1956 incorporated into the Union agreement, as is the Savings Plan for Employees of Pennichuck Corporation (401k) effective 1984.
- Other specific topics.

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

2019 Expenses YTD

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

Week 52 Master Control	\$ 9,902,018.58
GL to Master Control Reconciliatio	\$ (81,148.65)
TaxTuition	\$ 4,771.16
TFB	\$ 76,398.17
Variance	\$ 20.68

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

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

TAXES

Prepaid Property Taxes \$263,892

Audit calculated the prepaid property tax figure to be \$266,846, which is \$2,744 different with the general ledger account 163310, Prepaid Property Taxes. The reason for the difference is a (\$796) credit from the town of Bow and (\$1,948) Town of Pelham for accidently including the state education tax on the 2019-second issuance property tax bills. The PUC annual report and the filing schedule 2 reflect the prepaid tax figure to be \$263,892. That figure is comprised of an asset and a liability account:

Asset	163310-7000-001	Prepaid Property Taxes	\$263,892
Liability	236115-7000-001	Local Property Tax Payable	<u>0</u>
		Net Prepaid Tax	\$263,892

Audit requested clarification of the Local Property Tax Payable account as to how the figure is calculated, as it is not based on one half the 2019 second issuance of municipal property tax bills. The Company provided the following: *“The Company books property taxes on a monthly basis for both local property taxes and state utility taxes. The local property taxes are based on the last year’s full year tax amount (the amount reflected on the 12/1 bills each year for the full year), by dividing that amount by 12 and recording it to expense. The offset is either Local Property Taxes Payable or Prepaid Property Taxes, depending on the month of the year. As the property tax year runs from April 1 to March 31 each year, but semi-annual payments are due on 7/1 and 12/1 each year, a portion of the year we are prepaid on local property taxes, and a portion of the year we are accruing taxes that will be due and payable at the next billing date.*

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

The Company indicated there were no property tax abatements or sale of land that affected the 2019 test year property tax expense. Audit reviewed the filing schedule 1A that indicates there was an abatement and property transfer for the Town of Derry. Audit reviewed the \$2,240 2018 second issuance Town of Derry property tax bill. The prepaid and accrued property tax payment schedule the Company used booked \$4,349 to calculate the prepaid and accrued tax amounts for 2019. This is a \$2,109 overstatement that was due to the Bedard Ave. property being sold in November 2018 and the accrued property tax payment schedule used for the test year was not adjusted before booking the property taxes. As a result, the prepaid taxes and offsetting accrued taxes liability account # 236115-7000-001 Local Property Taxes Payable are overstated by \$2,109.

Audit Issue # 10

Property Tax Expense

Audit calculated the property taxes paid during the test year, reviewed the general ledger account, and the filing with the following result:

	<u>Audit</u>	<u>GL</u>	<u>Filing</u>
½ of 2 nd Issue 2018 municipal	\$ 235,525		
Full 1 st Issue 2019 municipal	462,119		
½ of 2 nd Issue 2019 municipal	<u>263,892</u>		\$263,892
Sum of 1 st 2019 and 2019 Issue	\$963,845/12*9		<u>722,873</u>
Municipal Property Tax Expense	\$ 960,481	\$	\$989,720
2019 NH DRA Utility Property Tax	\$196,204	<u>\$ 0</u>	<u>\$212,509</u>
Credits	<u>(\$2,744)</u>		
Total Property tax expense	\$1,157,738	\$1,174,044	\$1,202,229

Audit reviewed the 408110 Local Property Expense account that indicates the Company used a monthly property tax schedule to calculate the monthly expense. The Company provided the monthly property tax payment schedule. Audit reviewed one-half the 2018-second municipal issuance, 2019 first half-full issuance, and one-half the 2019-second municipal issuance as well as the state utility tax that summed to \$1,157,738 per Audit Staff calculations. This is a \$16,306 difference from the \$1,174,044 booked to the GL. The reason for the \$16,306 difference was due to the DP-255 state utility property tax payment made in January 2020. Audit verified the state utility tax to the quarterly payments of \$49,051 on the 2018 DP-255. The four quarterly payments summed to \$196,204.

The \$1,174,044 Property Tax Expense on Filing Schedule 1 was verified to the GL account 408110. The filing schedule 1A further breaks out the property tax expense. The \$1,202,229 2019 test year property tax expense did not match the Filing Schedule 1. The \$28,185 difference between filing schedule 1A and the GL is largely a result of timing. PEU calculated the property tax expense on Schedule 1A by taking one half of the December 2018 tax bill and adding the sum of the 2019 first and second issue tax bills, dividing by 12 then multiplying by 9. The Company indicated this method represents the 2019 calendar year tax expense. The \$1,174,044 property tax expense booked to the GL represents the April 1 2019-March 31, 2020 property tax expense. The method reflects the process for performing the actual test year expense to a pro formed tax year expense for rate case expense purposes. This method was first used in the most recent PEU DW 17-128 rate case.

There was a (\$2,744) credit related to removing state education tax for the Town of Bow and Pelham. This is discussed in the Prepaid Taxes section.

The Company in the response to Staff Data Request 1-34 indicated in June 2020 when they were reviewing the NH RSA 83F State Utility Property notices compiled by the NHDRA they noticed a number of valuations of properties in many communities were inaccurate. The Company indicated this does not have any effect on the 2019 property tax test year expense. The affect will not be impactful until 2021.

State Utility Tax

PEU estimated the 2019 NH DRA State Utility Tax to be \$212,509 per filing schedule 1A and the actual expense for the year is \$196,204 per the review of the actual DP-255 quarterly payments made during 2019. This is a difference of \$16,305 due to a state utility tax DP-255 payment made in January 2020. The Company indicated the \$212,509 property tax expense is based on the April 1, 2019-March 31, 2020 tax year. The filing schedule 1A includes a \$190,034 calendar year state utility property tax expense used in the prior DW 17-128 rate case. It appears the figures were not updated for the DW 20-156 rate case. The calendar year state utility tax expense should be \$196,204. The filing schedule 1A indicates a (\$22,475) proformed difference. The filing schedule 1A should be updated to reflect the correct \$16,305 difference between the calendar year and proformed state utility tax expense. **Audit Issue #11**

Per Filing Schedule 1A

<u>Total Bill TY2019</u>	<u>Total Expense for 2019</u>	<u>Difference</u>
\$190,034	212,509	(\$22,475)

Adjustments to be made to Filing Schedule 1A

<u>Total Bill TY2019</u>	<u>Total Expense for 2019</u>	<u>Difference</u>
\$196,204	212,509	(\$16,305)

State Education Tax

Audit reviewed municipal tax bills along with the supporting property tax payment schedules the Company used to calculate the property tax expense. The Company indicated they received a net (\$2,744) credit in state education tax for the towns of Bow and Pelham related to tax collectors inadvertently including state education taxes on the bills. The Company included \$1,942 in state education tax for the town of Windham and the Town of Londonderry based on a review of the actual property tax bills. **Audit Issue #12**

<u>Town</u>	<u>Parcel</u>	<u>2018 2nd</u>	<u>2019 1st</u>	<u>2019 2nd</u>	<u>Total</u>
Windham	22-L	\$113	\$227	\$113	\$453
Londonderry	10-142	\$329	\$165		\$494
	7-108A	\$162	\$81		\$243
	4-3-21	\$275	\$138		\$413
	13-74-1A	<u>\$226</u>	<u>\$113</u>		<u>\$339</u>
Total		\$1,105	\$724	\$113	\$1,942

Note: The entire parcel number is not included due to space limitations.

Federal and State Tax Returns

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

Audit reviewed the 2018 and 2019 Federal form 1120, filed at the Pennichuck Corporation level. Schedule M identified information at the subsidiary level, which Audit reviewed and verified to the general ledger. There was a (\$540,156) net loss on the 2018 federal return and 2018 Annual Report. There was \$386,829 in net income on the 2019 federal return and 2019 Annual Report. PEU indicated they did not have a tax sharing/allocation agreement with Pennichuck Corporation and those taxes for each entity are calculated separate. Audit verified the federal tax forms and the expenses associated with it to the general ledger.

Audit reviewed the 2018 and 2019 NH Business Profits Tax Returns that is paid at the Pennichuck Corporation level. The State of NH Business Profits tax form does not exactly replicate the information noted on the Federal form, due to the temporary and permanent differences between book and tax information on the federal form. The 2019 NH Business Profits Tax rate was 7.7% and is paid at the Pennichuck Corporate level. The NH Business Enterprise Tax was paid at the Pennichuck Corporate level because the tax return is a joint unitary return. The Company indicated they allocated and paid \$3,775 in BET in 2019. The NHBET was 0.60 for December 2019 year-end. Audit verified the State tax form and the expenses associated with it to the general ledger.

The PEU income tax expense/accrual process is as follows: Each month the Accounting Supervisor indicates that the income tax provision/benefit is calculated using the following method. The PEU deferred tax process is as follows: The depreciation expense for the fixed and regulatory assets, which include additions and retirements, is calculated by the RAM system for Book, Regular Tax, AMT, ACE, and state depreciation. The information is used in the calculation of the book to tax difference for both the depreciation adjustment and the gain/loss on sale of asset adjustments.

Both adjustments are included in the deferred tax provision/benefit work papers as a book to tax adjustment in calculating taxable income. Certain other book to tax adjustments exist for various deferred items on the financial statements, where the timing of the deduction follows different rules than the book deduction. The Accounting Supervisor and/ or the Corporate Controller also reviews any net operating loss, contribution carryover, and other potential tax deductions to determine if PEU anticipates the potential of not using the deduction before the expiration.

Audit verified the Deferred Income tax total of (\$4,823,913) to three general ledger accounts on Filing Schedule 2A and the 2019 Annual Report:

282200-7000-001	Deferred Income Taxes	\$(4,661,286)
282201 -7000-001	Deferred Income Tax-Swap	\$ 141,357
283100-7000-001	ADIT-Regulatory Liability	<u>\$(1,620,743)</u>
Total		<u>\$(6,140,672)</u>

Audit verified the Deferred Income Taxes balance in the tax worksheet calculations provided by PEU. 98.55% of the balance was for Accumulated Depreciation, 1.36% for Amortization, and 0.09% for bad debt loss. The DW 18-046 docket exempted PEU from the Tax Cut and Jobs Act passed in December 2017. The reason for the exemption was due to the rate making structure of the Company.

Audit verified that the Deferred Income Tax-Swap balance represents 40% of the offset to the Derivative balance of \$(353,393) reflected in account 224100 Other Liability. The remaining 60% of the Derivative offset is reflected in the Other Comprehensive Income balance sheet account 219000.

There was no activity in the ADIT-Regulatory Liability account since the creation of the account in 2017. The account relates to the Tax Cut and Jobs Act passed in 2017. Audit reviewed the JE #703 that showed the adjustments that were made on December 31, 2017 to reclassify a portion of taxes to comply with the new law to reflect a net operating loss on the books of the Company.

Audit reviewed the income tax expense booked on the Annual Report and Filing Schedule 1 and there were several inconsistencies that are summarized in the charts below. **Audit Issue #13**

409102-7100-001 Provision for Fed Inc Tax Current	\$ 132,469
409113-7100-001 Provision for NHBPT Current	\$ 34,414
410102-7100-001 Provision for Fed Inc Tax Deferred	\$ 192,832
410113-7100-001 Provision for NH Income Deferred	<u>\$ 55,645</u>
Net Income Tax per Annual Report	\$ 415,360
408110-7100-001 Local Property Taxes	\$1,174,044
408130-7100-001 NH BET Tax	<u>\$ 3,775</u>
Total Property Taxes per Annual Report	\$1,177,819
Total per Filing Schedule 1 Bates Page 178 Net Income Tax	
408130-7100-001 NH BET Tax	<u>\$ 3,775</u>

The following on Filing Schedule 1 Attachment J Bates page 190 breaks out the income tax expense for 2019.

409102-7100-001 Provision for Fed Inc Tax Current	\$ 132,469
409113-7100-001 Provision for NHBPT Current	\$ 34,414
410102-7100-001 Provision for Fed Inc Tax Deferred	\$ 192,832
410113-7100-001 Provision for NH Income Deferred	\$ 55,645
408130-7100-001 NH BET Tax	\$ 3,775
Investment Tax Credit-Not on GL or Annual Report	<u>\$ (33,036)</u>
Net Income Tax per Annual Report	\$ 386,099

Note: In the response to Staff Data Request, set 1-16 the Company included a revised Filing Schedule 1 Attachment J that excludes the investment tax credit as they were never booked to the GL and the charges were never incurred. The Company indicated the investment tax credits were included only in error.

On the Filing Schedule 1, the Company booked the \$3,775 2019 NHBET as an income tax expense while on the annual report they booked the charges under the property tax expense section. The Company booked the NHBET charges to the correct 408130 account. The Income Tax Expense on Filing Schedule 1 is different from the Annual Report and Filing Schedule 1 attachment J. The Filing Schedule 1 attachment J includes (\$33,036) in investment tax credits that were not booked to the GL and are not included on the annual report. The filing schedule 1 also only includes the \$3,775 NHBET and does not include the other 409 and 410 accounts. The Company in the response to Staff Data Requests 1-12 and 1-37 indicated the Company incorrectly determined the \$3,775 NHBET that should have been \$23,882 based on tax worksheets allocated at the PWW level. Audit reviewed the updated \$23,882 NHBET expense sent in response to Staff Data Request 1-37 that indicates they will be performed in a revised filing schedule. **Audit Issue #13**

Audit Issue #1

Allocation of Supplemental Executive Retirement Plan Costs

Background

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

Issue

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

Recommendation

The Company should recalculate the allocations, excluding the Supplemental Executive Retirement Plan costs, and adjust the filing as appropriate. Audit identified this issue within the PAC DW 20-153 Audit report, to which the Company responded:

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

Audit reminded the reader that while the PWW utility may have implicit authorization to include the SERP, other water utilities as well as gas and electric utilities, have had SERP related costs excluded.

Company Response

The Company once again respectfully disagrees. As was indicated in the response cited above, this is a contractual obligation that has been in existence since 1995 and has been an approved element of the Management fee shared by all of the utilities since then. It is also important to note that the SERP related impact shared by the utilities can either be a cost, or income, shared by the utilities. This obligation was funded with an insurance policy at its inception, and the amount shared by the utilities is the “mark to market” adjustment experienced in each year. As such, it is both a shared cost, or shared income, by all the utilities in a given year, dependent upon the adjustment needed to record that impact, based upon the differential between the current value of the forward looking insured liability, and the current market value of the underlying assets that support the contractual obligation. As such, eliminating this from the calculation may appear to be a

positive for this utility based upon the current year, but in doing so, may actually be removing a positive impact from them in another year. Additionally, as the utilities in the Pennichuck group are not traditional IOUs (Investor Owned Utilities) with a Return on Rate Base and a Return on Equity, imposing this to be removed and transferred as an obligation of the shareholder, is not a reality. By removing it from the calculation it will only cause the impact of this transaction to be fully burdened upon PWW, as there is no ability to transfer this cost to be funded from the ROR or ROE, and the current rate structure of all of the utilities in the group must have full cash flow coverage for their necessary and contractually obligated operating expenses. Citing the coverage of other utilities for the coverage of SERP related costs is not an “apple to apples” comparison, as those other IOU utilities have both an ROR and an ROE to pay for the cost of those plans and their related costs.

Audit Conclusion

Audit appreciates the information provided in the Company response. It is understood that the rate setting mechanism used by the Pennichuck utilities is different than other utilities. However, Audit reiterates that the payment of supplemental executive retirement is a corporate decision that should be paid by shareholders. The cost (or referenced income) becomes part of the allocation spread among the utilities, and is thus included in the operations and maintenance expense calculation, as part of the Material Operating Expense Revenue Requirement (MOERR), described in docket DW 17-128, Order 26,179.

Audit Issue #2

Property Held for Future Use

Background

For the test-year 2019, the NHPUC annual report and the general ledger shows Plant in Service, accounts 301 through 348 totaling \$75,762,602.

Issue

The filing schedule 2 amount of \$75,767,052 includes account 103 - Property held for Future Use for \$4,450, which should not be included in the filing for ratemaking purposes.

Recommendation

The Plant in Service amount of \$75,767,052 shown on schedule 2 of the filing should be reduced by \$4,450, which represents property held for future use.

Company Response -

The Company agrees with the Audit find and has reduced plant in service by \$4,450 to reflect the property held for future use.

Audit Response

Audit appreciates the Company response, and requests that the filing be updated and a copy of the adjusting entry be provided to the NH PUC Audit staff.

Audit Issue #3

Miscellaneous Deferred Debits

Background

The DW 19-035 QCPAC Audit Report identified an audit issue related to land rights regarding an insertion valve that was paid by PEU and installed on a Manchester Water Works pipeline. PEU does not own the property. The Company also had some legal costs that should have been booked to the Miscellaneous Deferred Debits account.

Issue

The DW 19-035 QCPAC Audit Report identified an issue related to \$25,000 Land and Right of Way booked to account #303600. The property is related to a 16" insertion valve that was paid by PEU and installed on a Manchester Water Works pipeline. Manchester Water Works, not PEU, owns the valve. On January 21, 2021, Audit requested clarification of whether the figure should remain in account 303600 or be moved to a deferred account.

On June 4, 2019, an Addendum to the DW 19-035 QCPAC Audit Report which identified one issue related to the DW 17-036 River Crossing interconnection legal costs of \$4,883 indicated that the amount should be moved from account 331100 to a 186 Miscellaneous Deferred Debit regulatory asset account. The reclassification was not done. As above, Audit requested clarification on January 21, 2021.

Also on January 21, 2021, a request for clarification of \$108,286 booked to account # 303520 in 2019 was sent to the Company.

Recommendation

The Company should adjust the Manchester Water Works pipeline charges of \$25,000 by crediting account 303600 and debiting account 186. Amortization should coincide with the term of the loan used to purchase the valve.

The Company should adjust the DW 17-036 River Crossing legal charges of \$4,883 by crediting account 331100 and debiting account 186. Amortization should be spread over 20 years.

The Company should provide the answer regarding the \$108,286 for land needed to build the pumping station. The Company should reflect the land in Property Held for Future Use if construction has not begun.

Company Response

The Company agrees with the Audit find and has made the recommended accounting entries. The Company will amortize the purchase of the valve over a 25-year time frame.

The company did complete a reclass journal entry for the \$4,883 from account 331100 to account 186267 on May 31, 2019. See the attached General Ledger detail for both 331100 and 186267.

Please see the attached response regarding the \$108,286 contribution to Hudson toward the rebuilding of the Weinstein well. The contribution toward the rebuilding of the well is in accordance with PEU's purchased water agreement with the Town of Hudson.

Audit Response

Audit had requested clarification of, among other items, the \$25,000 and \$108,286 on January 21, 2021. On April 8, 2021 the Company responded to the DRAFT Audit report, with the above information and the following, which was the referenced attachment:

PENNUCHUCK EAST UTILITIES RATE CASE DW 20-156 AUDIT REQUEST 43 –

- 1. The DW 19-035 QCPAC Audit Report identified an issue with \$25,000 in Distribution Systems Land and Rights of Way booked to account # 303600. The audit issue identified an insertion valve on a pipeline owned by the Manchester Water Works needs Commission Approval before the asset can be accounted for as a regulatory asset and amortized. Please indicate what Commission Order if any authorizes the Company to do this as the charges are still on the books.*
- 2. Please indicate what the \$108,286 in charges booked to account # 303520 Land Rights/Source of Supply and Pumping Plant is for and if the Commission has issued an Order authorizing the charges to be accounted for as a regulatory asset and amortized.*

PEU Response- Pursuant to Puc 607.07, PEU is required to adhere to the N.H. Uniform System of Accounts (USOA) for Water Utilities. The Commission, in Order No. 21,310 (August 8, 1994), ordered that the USOAs, including the USOA for water utilities, "shall remain in effect until such time as the Commission shall prescribe, amend, rescind or otherwise affect the USOAs currently prescribed for regulated utilities." Pursuant to the Uniform System of Accounts for Water Utilities, PEU is required to adhere to the standards set by the Financial Accounting Standards Board. Pursuant to FAS 71, Accounting for the Effects of Certain Types of Regulation, regulated enterprises shall recognize certain costs in the manner that PEU has, in this case, done for the \$25,000 and \$108,286 costs. Past practice has been that PEU creates such accounts as such circumstances arise and then when PEU is before the Commission for approval of rates, the Commission reviews the accounts and approves of them before they are included in the Company's ratemaking structure. In the case of the \$25,000 in Distribution Systems Land and Rights of Way in account #303600, was presented to the Commission in the Company's filing in Docket No. DW 19-035. In the case of the \$108,286 in account #303520 was PEU's contribution to the Town of Hudson for the rebuild of Hudson's Weinstein well. PEU's contribution to Hudson owned assets that jointly serve the Town

of Hudson and PEU was approved in DE96-227. The recovery of the expense associated with PEU's share of the rebuild of the Weinstein Well was sought in DW20-019.

Audit appreciates the Company's acknowledgement that they shall comply with the Uniform System of Accounts for Water Utilities.

Audit noted the inclusion of the \$25,000 in account 303600 which had been identified as an Audit issue in the DW 19-035 Audit report, and appreciates that the Company made the recommended adjusting entries. A copy of the journal entry is requested.

Regarding the \$4,883, the General Ledger cards attached to the DRAFT report for accounts 331100 and 186267 show a credit to 331100 and debit to 186267 on 5/31/2019. The resulting postings clear this portion of this Audit issue.

Regarding the \$108,286 identified in the DW 20-019 QCPAC 2019 filing, the following is from the Audit report of DW 20-019:

Weinstein/Dame Station Upgrades - \$108,286

The project was located in the Litchfield community and consisted of five separate work orders with the numbers 1506139, 1603114, 1703756, 1813249, and 1907079. The CAPEX shows that this project was not in the approved budget. The earliest estimated project cost, as of June 30, 2019, was for \$108,286. The final project cost, including all the five aforementioned work order numbers, totaled \$108,286.

The Record of Bids and Proposals spreadsheet provided by the Company recorded that there were no bids on the Weinstein/Dame Station Upgrades. Audit questioned why the Company had no bids for this project and they replied with the following statement:

"The wells in question are owned by Hudson. Hudson is responsible to maintain, rebuild or replace the wells and Pennichuck is responsible to pay Hudson for 15% of the cost to maintain, rebuild or replace these wells. Pennichuck has no control over how Hudson hires its contractors."

Exhibit DLW-1, page 3 of the filing reported no QCPAC eligible property tax for the Weinstein/Dame Station Upgrades project. Audit confirmed with the Company that there was no tax expense due to the fact that the Weinstein/Dame Station is owned by Hudson Water Works; therefore, there is no tax impact on PEU.

Inclusion of the \$108,286 in the QCPAC appears to be an error. The \$108,286 improvement for which PEU paid is not in fact an asset of PEU and should be removed from account 303520. Audit suggests that the contract with the town of Hudson be review again by the NH PUC Water staff, and the final accounting treatment of these types of contributions by specifically determined and documented.

Audit Issue #4

CIAC

Background

For the test-year 2019, the NHPUC annual report and the general ledger shows Contributions in Aide of Construction account 271 and 272 netted to \$(21,143,298).

Issue

The filing schedule 2C amount of (\$20,543,298) includes accounts 271 Contributions in Aide of Construction and 272 Reserve for the Amortization of CIAC.

The filing schedule 2C did not include the \$(600,000) source grant from the Drinking Water fund booked to account 271207-7000-001.

Recommendation

The Company should adjust the filing schedule 2C to include the \$(600,000) Drinking Water Funds booked to account 271207-7000-001. The filing schedule 2C should reflect the correct \$(21,143,298) net CIAC for the 2019 test year.

Company Response

The company agrees that the filing schedules need to include the \$(600,000) Drinking Water Funds booked to account 271207-7000-001.

Audit Response

Audit appreciates the response and suggests the revised filing schedule 2C be provided to the docket.

Audit Issue #5

46.3 Additions to CIAC Received From Developers

Background

For the test-year 2019, the NHPUC annual report F-46.3 and the general ledger show Contributions in Aide of Constructions additions received from all developers in which cash or property was received during the year of \$(1,944,041).

Issue

Based on a review of the individual asset side GL accounts, Audit noticed there was a (\$942) variance between the GL and annual report. The Company indicated the difference was due to adjustments/reclassifications on the annual report as well as the \$328,613 included in the 309 supply mains account should not have been included in the annual report but rather the 333 services account. The Company indicated the services account should have been \$330,826 for 2019.

Account	Account Title	Annual Report	General Ledger	Variance
304550	Booster Stations	\$ 180,200	\$ 180,200	\$ -
346xxx	Communications Equipment	\$ 7,000	\$ 7,000	\$ -
	Composite Rate	\$ 29,423	\$ 29,423	\$ -
331xxx	DistributionMains	\$ 1,137,200	\$ 1,137,200	\$ -
331xxx	Distribution Mains	\$ -	\$ -	\$ -
330xxx	Distribution Reservoirs & Standpipes	\$ -	\$ -	\$ -
311xxx	Electric Pumping Equipment	\$ 100,000	\$ 100,000	\$ -
335xxx	Hydrants	\$ 105,334	\$ 105,334	\$ -
334xxx	Meters	\$ 10,000	\$ 10,000	\$ -
310000	Power Generation Equipment	\$ 45,000	\$ 45,000	\$ -
320xxx	Purification Equipment	\$ -	\$ -	\$ -
333xxx	Services	\$ -	\$ 330,826	\$ (330,826)
309xxx	Supply Mains	\$ 328,613	\$ -	\$ 328,613
	Adjustments/Reclass	\$ 1,271		\$ 1,271
		<u>\$ 1,944,041</u>	<u>\$ 1,944,983</u>	<u>\$ (942)</u>

Recommendation

The Company should adjust the filing schedules and annual report to reflect the correct contributed \$330,826 services charges are correctly reflected rather than in the incorrect 309 supply mains account.

Company Response

The company agrees that the filing schedules and annual report need to reflect the correct contributed \$330,826 service charges in account 333xxx.

Audit Response

Audit appreciates the response and understands that the filing will be adjusted.

In addition, the NH PUC Annual Report for the year ended 12/30/2020 should reflect the correct figures as beginning balances at 1/1/2020.

Audit Issue #6

ARRA Loan Forgiveness should be CIAC

Background

The Company received loans from the American Recovery and Reinvestment Act that includes a loan forgiveness component. The Company also received loan forgiveness on other SRF loans.

Issue

On the F-52 on the 2019 annual report, it indicates the Company received \$23,661 in American Recovery and Reinvestment Act loan forgiveness for the Green Hills Rd and the 2007 Locke Lake SRF loans they borrowed. The Company also received loan forgiveness on other SRF loans. The loan forgiveness were all booked to account # 414000-7000-001, Gain from Forgiveness SRF Debt. This should be considered a Contribution in Aid of Construction.

<u>Name</u>	<u>Cost</u>	<u>JE Date</u>	<u>Amount Booked to Account 414</u>
Green Hills	\$56,578	9/8/2004	\$5,799
Locke Lake 2007	\$57,651	7/31/2010	\$3,760
Locke Lake 2011	\$110,460	1/1/2014	\$6,025
Liberty	\$140,000	4/30/2015	\$7,029
Brady Ave	\$62,857	1/31/2019	<u>\$1,048</u>
Total			\$23,661

Recommendation

The Company should book the \$23,661 SRF loan forgiveness as a Contribution in Aid of Construction.

Company Comment

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

Also per the PWW Rate Case (DW 19-084 and DW 20-055), section 5, reads as follows:

(2) allow PWW to continue its accounting methodology for the principal forgiveness on the Drinking Water State Revolving Fund loans;

Audit Comment

As identified in the Pittsfield Aqueduct Audit report of DW 20-153, Audit appreciates the reference to the settlement in the PWW rate case. However, the Water Chart of Accounts requires that plant paid by others, in this case, the State Revolving Loan Fund, should be booked as CIAC.

Audit suggests that if treatment of the loan forgiveness portion of any forgivable debt is to be booked in the manner settled with PWW, the Water staff at the NH PUC specifically state such treatment for PEU and PAC as appropriate. If such treatment should follow the chart of accounts, that should also be documented within the context of both the current PAC rate case and PEU rate case.

Audit Issue #7

Amortization

Background

The Company booked Miscellaneous Deferred Debit charges in November 2019 that had not been booked for 2016, 2017, and 2018.

Issue

The Company included a November 2019 entry for \$7,688 debited to the 407320 account and credited to account #186500 the Manchester Source Development charge that was to correct an amount not booked the GL for 2016, 2017, and 2018.

For the test year, the amortization expense is overstated by \$7,688.

Recommendation

The Company should adjust the filing schedules as the 407320 account is overstated by \$7,688, a non-recurring entry.

Company Response

The company agrees with audit request and will adjust the filing schedules by \$7,688.

Audit Response

Audit understands that the Company will include the reduction of \$7,688 to account 407320, Amortization Expense-Deferred Charges in the revisions to the filing schedules in the current rate case.

Audit Issue #8 **Update to Schedule F-35 of the Annual Report**

Background

Regarding the Hickory and Avery SRF Loan: the interest calculations reported on the NH DES monthly invoices, the NH DES invoice summaries, and the amortization schedule, reflect the accurate interest rate of 2.616%. Audit verified the 2.616% interest rate to a letter from NH DES, dated November 9, 2015, stating that, *“the charge rate has been reduced from 2.72% to 2.616%.”*

Issue

Schedule F-35, column E of the annual report lists the interest rate at the original 2.72%.

Recommendation

The Company needs to update the 2.72% interest rate, still stated on schedule F-35 of the annual report, for the Hickory and Avery SRF loan, to reflect the accurate rate of 2.616%.

Company Response

The company agrees and will change the interest rate to 2.616% on schedule F-35 of the annual report, for the Hickory and Avery SRF loan.

Audit Conclusion

Audit appreciates the Company response and anticipates reviewing the corrected rate in the 2020 NH PUC Annual Report and ongoing.

Audit Issue #9

Short-Term Debt Requirements

Background

The general ledger and annual report balance for the current liability account 233300, Intercompany Pay/Rec:PEU/PCP, totaled \$(5,402,754).

Issue

The filing Schedule 2A included the current liability balance of \$(5,402,754) from the intercompany Accounts Payable to Associated Co. (233) accounts within the long-term debt balance of \$(8,169,417) for the Advances from Associated Co. (223).

Recommendation

The 2019 current liability balance of \$(5,402,754), from the Accounts Payable to Associated Companies (233), should not be included within the long-term debt balance for the Advances from Associated Co. (223), as is currently reported on Schedule 2A of the filing.

Company Response

The company agrees and will exclude the 2019 current liability balance of \$(5,402,754), in the Accounts Payable to Associated Companies (233) from Advances from Associated Co. (223), as is currently reported on Schedule 2A of the filing.

Audit Conclusion

Audit understands the Company response to mean that a revised schedule 2A of the filing will be provided to the docket.

Audit Issue #10

Derry Property Taxes

Background

The Company overstated the accrued and prepaid property tax schedule used to calculate the prepaid and accrue property tax for 2019.

Issue

Audit reviewed the filing schedule 1A that indicates there was an abatement and property transfer for the Town of Derry. Audit reviewed the \$2,240 2018 second issuance Town of Derry property tax bill. The prepaid and accrued property tax payment schedule the Company used booked \$4,349 to calculate the prepaid and accrued tax amounts for 2019. This is a \$2,109 overstatement that was due to the Bedard Ave. property being sold in November 2018 and the accrued property tax payment schedule used for the test year was not adjusted before booking the property taxes. As a result, the Taxes and offsetting accrued taxes liability account 236115-7000-001 Local Property Taxes Payable are overstated by \$2,109.

Recommendation

The Company should adjust the GL and filing schedules to reflect the \$2,109 overstatement of the prepaid and accrued property tax payment schedules used during the 2019 test year.

Company Response

The company agrees with audit request and will adjust the filing schedules to reflect the \$2,109 overstatement of the prepaid and accrued property tax.

Audit Response

Audit appreciates the Company response and understands that the filing schedules will be provided as revisions in the docket.

Audit Issue #11
State Utility Taxes

Background

The Company in the Tax Year column on Filing Schedule 1A includes an error that is based on the prior DW 17-128 PEU rate case.

Issue

On Filing Schedule 1A on the “Total Bill For Tax Year 2019 indicated the state utility property tax expense was \$190,034 that is the same figure from the DW 17-128 rate case. The correct figure should be \$196,204 that is based on a review of all four quarterly DP-255 state utility property tax payments made during 2019.

Per Filing Schedule 1A

<u>Total Bill TY2019</u>	<u>Total Expense for 2019</u>	<u>Difference</u>
\$190,034	\$212,509	(\$22,475)

Adjustments to be made to Filing Schedule 1A

<u>Total Bill TY2019</u>	<u>Total Expense for 2019</u>	<u>Difference</u>
\$196,204	\$212,509	(\$16,305)

Recommendation

The Company should adjust the filing schedule 1A to reflect the correct (\$16,305) difference for 2019 state utility property tax expense.

Company Response

The Company agrees and will adjust the filing schedule 1A to reflect the correct (\$16,305) difference for 2019 state utility property tax expense.

Audit Response

Audit understands the Company response will be included within the revised schedules to be filed in the docket.

Audit Issue #12

State Education Tax

Background

The Company included state education tax that should not have been included in the property tax expense.

Issue

The Company included \$1,942 in state education tax for the Town of Windham and the Town of Londonderry based on a review of the actual property tax bills.

<u>Town</u>	<u>Parcel</u>	<u>2018 2nd</u>	<u>2019 1st</u>	<u>2019 2nd</u>	<u>Total</u>
Windham	22-L	\$113	\$227	\$113	\$453
Londonderry	10-142	\$329	\$165		\$494
	7-108A	\$162	\$81		\$243
	4-3-21	\$275	\$138		\$413
	13-74-1A	<u>\$226</u>	<u>\$113</u>		<u>\$339</u>
Total		\$1,105	\$724	\$113	\$1,942

Note: The entire parcel number is not included due to space limitations.

Recommendation

The Company should remove the \$1,942 in state education property tax expense from the filing schedules for the Towns of Windham and Londonderry.

Company Response

The Company agrees and will remove the \$1,942 in state education property tax expense from the filing schedules for the Towns of Windham and Londonderry.

Audit Response

Audit again understands the Company response will be included within the revised schedules to be filed in the docket.

Audit Issue #13
Property Tax and Income Tax Account Differences

Background

Audit reviewed the Annual Report and Filing Schedule 1 tax account detail to the actual general ledger and noticed several inconsistencies.

Issue

On the Filing Schedule 1, the Company booked the \$3,775 2019 NHBET as an income tax expense while on the annual report they booked the charges under the property tax expense section. The Company booked the NHBET charges to the correct 408130 account. The Income Tax Expense on Filing Schedule 1 is different from the Annual Report and Filing Schedule 1 attachment J. The Filing Schedule 1 includes (\$33,036) in investment tax credits that were not booked to the GL and are not included on the annual report. The Company in the response to Staff Data Requests 1-12 and 1-37 indicated the Company incorrectly determined the \$3,775 NHBET that should have been \$23,882 based on tax worksheets allocated at the PWW level. The updated NHBET expense will be proformed in the revised filing schedules.

409102-7100-001 Provision for Fed Inc Tax Current	\$ 132,469
409113-7100-001 Provision for NHBPT Current	\$ 34,414
410102-7100-001 Provision for Fed Inc Tax Deferred	\$ 192,832
410113-7100-001 Provision for NH Income Deferred	<u>\$ 55,645</u>
Net Income Tax per Annual Report	\$ 415,360
408110-7100-001 Local Property Taxes	\$1,174,044
408130-7100-001 NH BET Tax	<u>\$ 3,775</u>
Total Property Taxes per Annual Report	\$1,177,819
Total per Filing Schedule 1 Bates Page 178 Net Income Tax	
408130-7100-001 NH BET Tax	<u>\$ 3,775</u>

The following on Filing Schedule 1 Attachment J Bates page 190 breaks out the income tax expense for 2019.

409102-7100-001 Provision for Fed Inc Tax Current	\$ 132,469
409113-7100-001 Provision for NHBPT Current	\$ 34,414
410102-7100-001 Provision for Fed Inc Tax Deferred	\$ 192,832
410113-7100-001 Provision for NH Income Deferred	\$ 55,645
408130-7100-001 NH BET Tax	\$ 3,775
Investment Tax Credit-Not on GL or Annual Report	<u>\$ (33,036)</u>
Net Income Tax per Annual Report	\$ 386,099

Note: In the response to Staff Data Request, set 1-16 the Company included a revised Filing Schedule 1 Attachment J that excludes the investment tax credit. This brings the Net Income Tax total to \$419,135.

Recommendation

The Company on Filing Schedule 1 should reflect the \$3,775 New Hampshire Business Enterprise taxes under the property tax section rather than the income taxes portion.

The Company should adjust the filing schedules to reflect the correct \$23,882 in NHBET that was indicated in the response to Staff Data Requests 1-12 and 1-37 in proformed revised filing schedules.

Audit appreciates the revised filing schedule 1 attachment J that removes the investment tax credits that were not booked to the GL. The Company is reminded the GL, annual report, and filing schedules must be consistently and accurately filed with the Commission.

Company Response

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

The company agrees that the filing schedules should reflect \$23,882 in NHBET that was indicated in the response to Staff Data Requests 1-12 and 1-37 in proformed revised filing schedules.

Audit Response

Audit appreciates the Company comment and retracts the reference to book the NH BET tax as property tax. Audit reviewed the NH Department of Revenue Administration website which includes:

"The Business Enterprise Tax ("BET") was enacted in 1993. The tax is assessed on taxable enterprise value tax base, which is the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise at the rate of .60% for taxable periods ending on or after December 31, 2019. For taxable periods beginning on or after January 1, 2019, every business enterprise with more than \$217,000 of gross receipts from all activities, or an enterprise value tax base of more than \$108,000, must file a BET return. This changes to \$222,000 or \$111,000, respectively, for taxable periods beginning on or after January 1, 2021."

As noted in earlier Audit issues, Audit understands that the update to the instant filing schedules will include the \$23,882.