

# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

**DATE:** July 1, 2021  
**AT (OFFICE):** NHPUC

**FROM:** James Schuler, Utility Examiner

**SUBJECT:** Pennichuck Water Works, Inc.  
DW 21-023 Qualified Capital Project Adjustment Charge - QCPAC  
**FINAL** Audit Report

**TO:** Jayson Laflamme, Asst. Director Gas - Water Division, NHPUC  
Lynn Fabrizio, Staff Attorney, NHPUC

### Introduction

Pennichuck Water Works, Inc. (PWW, the Company) had been participating in a Water Infrastructure and Conservation Adjustment (WICA) Pilot Program since approved by Commission Order 25,230 on June 9, 2011. In Docket DW 16-806 the Commission issued Order 26,070 replacing the WICA with the Qualified Capital Project Adjustment Charge (QCPAC).

On February 11, 2021, PWW filed the initial 2020 QCPAC reconciliation. This reconciliation, and the associated projects, subject to the Public Utilities Commission's review and subsequent Order, would then be eligible for recovery through the QCPAC.

Per the testimony of Don Ware, Bates Page 013 of the filing, the Company invested \$6,951,260 in property, equipment and engineering designs and studies in 2020. The funds borrowed to pay for these investments will be paid for with a combination of April 2021 Bond proceeds in the amount of \$5,628,830, DWGTF (Drinking Water and Groundwater Trust Fund) loan proceeds of \$473,002 and DSSR (State Revolving Loan Funds) of \$849,428.

### Regulatory Approval

As required by Order 26,070, to be eligible for recovery through the 2020 QCPAC, a project must meet the following standards:

- (1) Completed, in service and used and useful on or before December 31, 2020;
- (2) Financed by debt that has been approved by the Commission; and
- (3) Corresponds with a capital budget that has previously been submitted by the Company and approved by the Commission.

## **2020 Capital Projects**

The Company provided Exhibit DLW-1, page 3 which showed the detailed list of Qualified Capital Projects that were used and useful on December 31, 2020. The PWW Board Approved Capital Expense Budget (CAPEX) for 2020 totaled \$9,995,700. The Final Projected Cost as of 12/31/2020 shown on the exhibit was \$6,951,260.

## **Review of Selected Projects**

The following table shows the projects that were selected for review, a dollar total of those projects and the annual property tax impact, if applicable. In addition to the mains, services, and paving projects, to be eligible for recovery through the QCPAC a project can be related to replacement of vehicles, network infrastructure and building improvements. Audit reviewed approximately 51% of the total project costs.

<b>Project Name/ Description</b>	<b>Work Order # Project #</b>	<b>Cost</b>	<b>Property Tax Expense</b>
CMMS - Cityworks New WO System	007-2000368/01	\$ 433,263	\$ 11,754
New Main Office	007-2001988/01	\$ 610,337	\$ 16,558
Merrimack River Pumping Station	007-2003759/01	\$ 485,114	\$ 13,835
Replace Carbon Filters Media 5 & 6	007-2003490/01	\$ 495,331	\$ 13,438
Merrimack River Intake Construction	007-2000380/01	\$ 393,965	\$ 11,235
Kessler Farm Booster Pump Package	007-2000389/01	\$ 190,901	\$ 5,179
Veterans Road Main Replacement	007-2000384/01	\$ 125,566	\$ 3,407
Brook Street Main Replacement	007-2003423/01	\$ 249,603	\$ 6,975
Hamilton Street Main Replacement	007-2003422/01	\$ 124,206	\$ 3,420
Verona Street Main Replacement	007-2007542/01	\$ 182,847	\$ 4,961
Ash Street Main Replacement	007-2007540/01	\$ 149,975	\$ 4,069
Replacement of Foremans Truck	007-2004436/01	\$ 79,203	\$ -
		\$ 3,520,311	\$ 94,831

## **CMMS – City Works New Work Order System - \$433,263**

Audit reviewed an E-22 dated January 3, 2020 that describes the replacement of the existing CMMS (Computerized Maintenance Management system) at an estimated cost of \$600,000. This was also the budgeted Capital Expenditure figure on the CAPEX. The project's actual cost was \$433,263. The vendors and the costs are listed below:

<u>2000368/01 Vendor/Description</u>	<u>Amount</u>
Timmons Group	\$ 209,789
ECi Macola/MAX, LLC	\$ 43,880
Dell	\$ 27,588
American Express	\$ 24,912
CDM	\$ 7,803
Axis	\$ 3,646
ENG&IS Overhead	\$ 115,646
Total Work Order	\$ 433,263

### The Timmons Group

The Company hired the Timmons Group to manage the project. Per the direct testimony of the Chief Engineer, John Boisvert, *“the Company researched other CMMS vendors and identified the “Cityworks” work order management application package as a viable alternative to replace the Oracle WAM application. Cityworks would meet the needs of the Company going forward at a significantly lower cost than Oracle WAM. The Company then sought competitive proposals from qualified Cityworks implementation vendors. The Company spent about \$433,000 in 2020 to purchase the software and hardware to initiate the implementation of Cityworks. The Cityworks system was tested in 2020 and prepared for the 12/31/2020 CMMS switchover from Oracle WAM to Cityworks. The estimated remaining cost to complete the implementation of Cityworks is budgeted at \$100,000 in 2021.”*

Audit reviewed twelve invoices from the Timmons Group for professional services from January 31, 2020 through December 31, 2020 totaling \$209,789. These services consisted of all aspects of project implementation including software licensing, data conversion, testing, training and maintenance.

One line item on the work order was labeled as a Tighe & Bond invoice in the amount of \$12,462 however, the actual invoice was from the Timmons Group for the same amount.

### ECi Macola/Max, LLC

ECi provided 12 Macola 10 Enterprise License Agreements and a Macola ES Software License Transfer. The Company also provided project management and application and technical consulting. Audit reviewed invoices totaling \$43,880 which were noted as FALOC costs.

### Dell \$27,588

Audit reviewed a single Dell invoice for hardware in the amount of \$27,588 for a PowerEdge Server/Processor, 2 each of VMWARE VSPHERE, 2 each of VMWARE Prod/VSPHERE. Enterprise Plus for VMWARE, a Corporate License - One year maintenance. The invoice noted that this was a FALOC cost.

ENG & IS Overhead

Audit verified the month August overhead calculation in the amount of \$6,626 from the spreadsheet provided provided by the Company with no exceptions noted.

The additions were posted to the general ledger on December 1, 2020 to the plant account shown below:

Work Order #2000368/01 - CMMC City Works New W/O System

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
347110	Computer Equip.-Hrdware/Sftware	\$ 433,263	\$ -	\$ 433,263

The Continuing Property Records did not show any cost of removal associated with the project however the Company provided the retirements detail showing assets totaling \$551,987 retired that were associated with the CMMS project. Also provided for was the entry to the account 108 – Accumulated Depreciation showing 2<sup>nd</sup> quarter retirements of \$1,036 and 4<sup>th</sup> quarter retirements of \$550,951 totaling \$551,987.

New Office Building - Nashua - \$610,337

The CAPEX shows that this project was in the 2020 Board Approved CAPEX Budget and was estimated to cost \$78,300 and revised to \$140,000 on November 30, 2020 per the CAPEX. The final work project costs according to the CAPEX on December 31, 2020 was \$610,337. The move to Nashua was financed by using the Debt Service Revenue Requirement (0.1 DSRR) account and was not QCPAC eligible per the CAPEX.

The E-22 dated March 11, 2020, describes the project as a move of office staff to a new location in Nashua and estimated to cost \$347,300. The Company stated the budget figure was a preliminary number and the cost increased due to increased technical specifications.

*“The original budget was specified prior to the construction being started on the project, and during the process of constructing the facility, certain items were identified that required modification either to meet City permitting requirements, building code compliance, and/or modifications noted during construction that were unforeseen prior to the actual construction occurring.”*

*In addition, “It is very important to note that 100% of the funds for the project were paid out of DSRR 0.1 funds, and as such, no additional debt was incurred for the fit-up of the new facility, all of which are a part of the new facility to be occupied for the next 15-30 years. And, as such, these costs are not subject to inclusion in the QCPAC surcharge as incremental debt service to be covered by the surcharge.”*

The project costs are broken out by vendor below:

<u>2001988/01 Vendor/Description</u>	<u>Amount</u>
Minute Security	\$ 151,208
Profile OFF	\$ 140,670
Electrical Installations	\$ 139,500
NorthPoint	\$ 78,990
Best Buy	\$ 30,663
AXIS	\$ 10,068
Sousa Signs	\$ 7,884
Barons App	\$ 6,143
American Express	\$ 5,698
Budget Blinds	\$ 5,362
Computer Cable	\$ 3,307
RTM Communications	\$ 3,187
Opex	\$ 3,062
United Rental	\$ 1,265
M&M Electric	\$ 61
ENG&IS Overhead	\$ 32,028
Total Work Order	\$ 619,097

The work order amount of \$619,097 includes two items that were not installed at the time the project was closed. Window blinds in the amount of \$5,362 and refrigerators in the amount of \$3,398. The actual amount of the work order used and useful as of December 31, 2020 was \$610,337 as per the CAPEX (619,097-8,760).

### Bidding

The Record of Bids & Proposals did not show any bidding for the New Office Building project. The Company stated that this project was not the Company's overall project. Unlike all other capital projects the Company enters into for main replacement projects, tank replacements or refitting, dam rebuilding, etc., a formal bid opening process did not occur, as the overall construction project was the sole responsibility of the Landlord, as owner of the building.

In addition, the Company did seek bids for the items which included the replacement and upgrade of the existing phone system, the replacement and upgrade of the backup generator, the purchase of appliances for the cafeteria and kitchenette areas, the door locking system (needed for security reasons), the installation of blinds in the new building, and the replacement and upgrade to all of the system furniture needed to fit-up the cubicles in the new building.

Audit reviewed several vendors invoices as listed below:

Minuteman Security Technologies - \$151,208

The Company provided access control systems, video monitoring and training for the new office building. Audit reviewed 4 progress payment invoices totaling \$151,208. The work was completed in November 2010.

Profile Office - \$140,670

The Company provided design services and labor to move and install workstations from Merrimack to the new Nashua office. New office furniture from Profile Office totaled \$99,458.

Electrical Installations

Electrical Installations from Moultonboro, NH provided a back-up generator including installation in the amount of \$139,500.

North Point Construction Management - \$78,990

Documentation provided by PWW shows six progress payments totaling \$70,273 with the final application for payment dated December 4, 2020 which was for a change order in the amount of \$8,717 resulting in the contract total of \$78,990. The work performed was for the installation of cables, conduits and general demo, painting and re-wiring.

ENG & IS Overhead

Audit verified the month August overhead calculation in the amount of \$103 from the spreadsheet provided by the Company with no exceptions noted.

The additions were posted to the general ledger on December 1, 2020 to the plant account shown below:

Work Order #2001988/01 - New Office Building - Nashua

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
304950	Manchester St-Leasehold Improvements	\$ 330,167	\$ -	\$ 330,167
310000	Power Generation Equipment	\$ 139,500	\$ -	\$ 139,500
340100	Office Equipment	\$ 140,670	\$ -	\$ 140,670
		\$ 610,337	\$ -	\$ 610,337

The Continuing Property Records did not show any cost of removal associated with the project. The Company provided the retirements detail showing assets totaling \$868,508 retired that were associated with the New Office relocation project. Also provided for Audit's review was the debit to account 108 – Accumulated Depreciation and crediting accounts 304950 – Leasehold Improvements, 304951 – Leasehold Improvements/HECOPIII FITUP Allowance and 310000 – Power Generation Equipment totaling \$868,508.

Merrimack River Pumping Station - \$485,114

The form E-22 dated May 29, 2020 describes work order no. 2003759/01 as adding a third pump and other upgrades to the Merrimack River Pumping Station and estimated to cost \$260,000. The CAPEX shows that this project was in the 2020 Board Approved Budget and was estimated to cost \$260,000 and revised to \$600,000 in November, 2020. The final work order totaled \$485,114. The CAPEX provided an explanation for changes, additions or deletions to the budget which states that there was an added pump station roof hatches and roofing to facilitate future pump replacements and that the bid received for the new pump was higher than expected. The Company received two bids for the project with the lowest bidder, Kingsbury Companies being chosen for the work. The project was financed in Docket DW 17-183, order no. 26,101.

The Town of Merrimack tax rate of \$28.52/thousand results in an eligible property tax expense of \$13,835. The project costs are broken out by vendor below:

<u>2003759/01 Merrimack River Pump Station</u>	<u>Amount</u>
R.H. White	\$ 241,724
Blake Group	\$ 145,420
Tighe & Bond	\$ 46,546
IMTEK Pro	\$ 188
M&M Electric	\$ 80
Concord Win	\$ 21,647
ENG&IS Overhead	\$ 29,509
Total Work Order	\$485,114

R.H White - \$241,724

Audit reviewed the application for payment documents for R.H White and noted the contract described the work as removal of existing piping and pump base, demolition of existing built up roof system, construction and installation of a new 24" pipe and 350 horsepower pump. Installation of a new utility service feeder, a new 1600 amp main circuit breaker and related work.

Audit noted a large balance of work left to complete as per the Application for Payment dated December 30, 2020. The document shows \$234,461 remaining balance on the \$464,100 contract. Audit requested documentation to verify if the project was used and useful at the end of the year. The Company explained that *"during the winter of 2021, RH White completed some miscellaneous demolition and concrete work, which was not related to the replacement of pump # 1. The other significant component of this project is the electrical upgrades which will allow connection of a portable generator in the event of power failure to the station. This work is independent of the Pump # 1 replacement. This cost is the reflected under "Balance to Finish" in Division 16 – ELECTRICAL on the RH White Application for Payment dated December 30, 2020. The electrical gear associated with this work had extensive lead times, therefore we scheduled this work for March of 2020. Due to Covid delays and a worldwide shortage of computer chips, the electrical contractor is still waiting for delivery of these materials."*

Blake Group - \$145,420

Audit reviewed two invoices from the Blake Group which provided the 3<sup>rd</sup> pump for the project. The first invoice was the deposit and the second was for the pump. The invoices were noted as FALOC costs.

Tighe & Bond – \$46,546

Tighe & Bond provided electrical design services for the pump station. The invoices were accompanied by employee time sheets which Audit recalculated with no exceptions noted. Also noted on the invoices were that these were FALOC costs.

ENG & IS Overhead

Audit verified the month August overhead calculation in the amount of \$3,878 from the spreadsheet provided by the Company with no exceptions noted.

The additions were posted to the general ledger on December 1, 2020 to the plant accounts shown below:

Work Order #2003759/01 - Merrimack River Pumping Station

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
304200	Power & Pumping Structures	\$ 314,935	\$ 31,493	\$ 346,428
309200	Supply Mains-Source of Supply	\$ 21,647	\$ 2,165	\$ 23,812
311200	Electric Pumping Equipment	\$ 145,420	\$ 14,542	\$ 159,962
311210	Electric Pumping Equipment-Pumps	\$ 3,113	\$ 311	\$ 3,424
		\$ 485,114	\$ 48,511	\$ 533,626

The Continuing Property Records did not show any cost of removal associated with the project and no retirements as these are new assets.

Replace Carbon Media Filters 5 & 6 - \$495,331

The costs in work order 2003490/01 consisted of replacing the carbon media filters at the Nashua water treatment plant. The Company's Capital Improvement and Expenditures Authorization does not provide an explanation for the filter change-out however, historically the Company replaces the filters once testing has shown that the granular activated carbon's absorptive capacity is exhausted. The Records of Bids and Proposals shows the two bids for the project with Calgon, the lower bidder, receiving the project.

Audit reviewed the work order detail, invoice, and other charges without exception.

<u>2003490/01 Replace Carbon Media Filters</u>	<u>Amount</u>
Calgon Carbon Corporation	\$ 495,331



Calgon Corporation

PWW posted the original acquisition cost (gross) to account 320310 – Water Treatment: Filter Media in June, 2020. The CPRs show year-to-date depreciation of \$31,842 posting half-year depreciation in the year of installation.

The general ledger shows a retirement credit posted for the fourth in the amount of \$203,200 which agrees with the Asset Disposition Report. The CPR's show 10% cost of removal posted in the amount of \$49,533 which agrees with the general ledger. Audit reviewed the vendors invoice which showed 2 filters at a cost of \$247,665.60 each.

The filter replacements were posted to the general ledger on June 1, 2020 to the account shown below:

Work Order #2003490/01 - Carbon Media Filters Changeout, Filters 5 & 6

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
320310	Water Treatment: Filter Media	\$ 495,331	\$ 49,533	\$ 544,864

The CAPEX shows that this project was in the approved budget, financed in docket DW 17-183, and was estimated to cost \$450,000 as of November 30, 2020. The final work order cost totaled \$495,331. The City's tax rate of \$27.13/thousand results in an eligible property tax expense of \$13,438.

The Continuing Property Records shows the 10% cost of removal associated with the project in the amount of \$49,533. Retirements per the general ledger agree with the Asset Disposition report total of \$203,200.

Merrimack River Intake Construction - \$393,965

Per the Company's Capital Improvements/Expenditures form, this project was authorized in 2015 to supplement supply during higher demand periods, typically June through October when flow is low in Pennichuck Brook. The E-22 shows the total estimate for the carry-over project to be \$5,500,000.

The Company received only two bids for the project with the lowest bidder being chosen for the work. The CAPEX shows that the work order #2000380/01 was in the 2020 Board Approved Budget and was estimated to cost \$362,000 and revised to \$452,109 in November, 2020. The final work order totaled \$393,965. The River Intake project was partially financed through the Drinking Water and Groundwater Trust Fund (DWGTF) in Docket DW 17-183, order no. 26,101 and DW 19-026, order no. 26,247. It was noted on the CAPEX that the project cost increased \$80,000 to develop the Source Water Protection as required by the NHDES.

<u>2000380/01 Merrimack River Intake Const.</u>	<u>Amount</u>
Kingsbury	\$ 230,891
GeoSyntec	\$ 82,310
Tighe & Bond	\$ 59,450
Hudson True Value	\$ 4
ENG&IS Overhead	\$ 21,310
Total Work Order	\$ 393,965

Kingsbury \$230,891 The Kingsbury Companies LLC representing the major portion of the construction costs. Audit reviewed two Application for Payments from February, 2020 and one from July, 2020. Each application was supported by a Progress Estimate that described the type of work performed, unit price, quantity installed this period and value installed to date. The last application in July, 2020 stated that the project was 100% complete.

GeoSyntec \$82,310 Other costs included an invoices from Geosyntec Consultants totaling \$82,310. The invoices represented professional services to develop a Modified Source Water Protection Plan. Included with the invoices were employee time sheets which were reviewed and samples recalculated with no exceptions noted

The additions were posted to the general ledger from February 1, through December 1, 2020 to the plant accounts shown below:

Work Order #2000380/01 - Merrimack River Intake Construction

<u>Account</u>	<u>Description</u>	<u>Gross Plant</u>	<u>COR</u>	<u>Gross Book</u>
306000	Lake, River, Other Intakes: S/S	\$ 393,965	\$ -	\$ 393,965

The Town of Merrimack tax rate of \$28.52/thousand results in an eligible property tax expense of \$11,235.

ENG & IS Overhead

Audit verified the month August overhead calculation in the amount of \$435 from the spreadsheet provided by the Company with no exceptions noted.

The Continuing Property Records did not show any cost of removal associated with the project and the Company stated that there were no retirements related to the intake work.

Kessler Farm Booster Pump Package - \$190,901

The Company received only two bids for the project with the lowest bidder being chosen for the work. The CAPEX shows that the work order #2000389/01 was in the 2020 Board Approved Budget and was estimated to cost \$75,000 and revised to \$188,000 in November, 2020. The final work order totaled \$190,901. This work order was to replace a 31 year-old booster and piping at Kessler Farm in Nashua and was financed in docket DW 17-183. The Company provided an explanation for the increased costs stating that site work to rebuild the

booster station was added to the budget and that the winning bid was higher than the engineers estimate.

The project costs are broken out by vendor below:

<u>2000389/01 Replace Kessler Booster Pump</u>	<u>Amount</u>
Skillings	\$ 176,372
NE Cablenet	\$ 3,120
Eversource	\$ 2,847
Ti-Sales	\$ 1,667
2" Bronze Flange	\$ 46
ENG&IS Overhead	\$ 6,850
<u>Totla Work Order</u>	<u>\$ 190,901</u>

### Skillings \$176,372

The major portion of cost for the project came from Skillings & Sons, Inc., for furnishing and installing the booster pump and skid system. Four application for payments were reviewed showing the total cost of the project with change orders in the amount of \$179,372. The fourth and final application for payment showed no balance left to complete the project and was dated October 20, 2020. It was noted on the contract that these were FALOC asset additions.

The booster station costs were posted to the following general ledger accounts shown below:

### Work Order #2000389/01 - Replace Kessler Farm Booster Pump

<u>Account</u>	<u>Description</u>	<u>Gross Plant</u>	<u>COR</u>	<u>Gross Book</u>
304550	Booster Stations	\$ 45,747	\$ -	\$ 45,747
310000	Power Generation Equipment	\$ 33,408	\$ -	\$ 33,408
311200	Electric Pumping Equipment	\$ 20,353	\$ 2,035	\$ 22,389
311210	Electric Pumping Equipment - Pumps	\$ 89,681	\$ 8,968	\$ 98,649
334000	Metering Equipment	\$ 1,712	\$ 171	\$ 1,884
		<u>\$ 190,901</u>	<u>\$ 11,175</u>	<u>\$ 202,076</u>

The Continuing Property Records the cost of removal associated with the project in the amount of \$11,175 and the Company stated that there were no retirements related to the pump package.

### Veterans Road – Northwest Water Main Improvements - \$125,566

As part of the Northwest Pressure System Upgrades, work order #2000384/01 consisted of costs to add 2,200 linear feet of 12 inch DIPCL to close two loop major dead-ends per the CAPEX. The Record of Bids and Proposals shows three vendors bid on the project with the lowest bidder, S.U.R. West Construction chosen for the work. The costs by vendor are broken out below:

<u>2000384/01 Veterans Rd. Main Improvements</u>	<u>Amount</u>
S.U.R Construction	\$ 120,585
Pennichuck	\$ 4,981
	<u>\$ 125,566</u>

S.U.R. construction charges consisted of mobilization and demobilization activities, main replacement, excavation, temporary trench restoration and traffic control. The Company booked the cost of the completed project as seen in the accounts below.

Work Order #2000384/01 - Veterans Rd. - Northwest Water Main Improvements

<u>Account</u>	<u>Description</u>	<u>Gross Plant</u>	<u>COR</u>	<u>Gross Book</u>
331200	Distributions Mains - New	\$ 125,566	\$ 12,557	\$ 138,123

The CAPEX shows that this project was in the revised Board Approved Budget and was estimated to cost \$125,000 November of 2020. The final work order cost totaled \$125,566. The City's tax rate of \$27.13/thousand results in an eligible property tax expense of \$3,407.

The Continuing Property Records shows the cost of removal associated with the project in the amount of \$12,557 and the Company stated that there were no retirements related to the main improvements.

Brook Street Main Replacement - \$249,603

The Company received three bids for the project with the lowest bidder being chosen for the work. The CAPEX shows that the work order #2003423/01 was in the 2020 Board Approved Budget and was estimated to cost \$380,000 and revised to \$276,000 in November, 2020. The final work order totaled \$249,603. This project, as part of the Lake Street Area Water Main Improvements-Phase II, was to replace 225 linear feet and 915 linear feet of 6 inch cast iron main with 1,140 Linear feet of DIPCL in Nashua and was financed in docket DW 17-183. The project costs are broken out by vendor below:

<u>2003423/01 Brook Street Main Replacement</u>	<u>Amount</u>
Albanese	\$ 241,606
Pennichuck	\$ 7,997
	<u>\$ 249,603</u>

A breakdown of the project costs provided to Audit is shown below which agrees with the amount shown on the general ledger:

Work Order #203423/01 - Brook Street Main Replacement

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
331002	Pavements - Distribution Mains	\$ 23,618	\$ 2,362	\$ 25,980
331200	Ditribution Mains - New	\$ 176,735	\$ 17,674	\$ 194,409
331250	Distribution Mains: Gate Valves	\$ 5,000	\$ 500	\$ 5,500
333200	Renewed Services	\$ 27,450	\$ 2,745	\$ 30,195
335000	Fire Protection: Hydrants	\$ 16,800	\$ 1,680	\$ 18,480
		\$ 249,603	\$ 24,960	\$ 274,563

The major portion of cost for the project came from Albanese D&S, Inc., for replacing water main. It was noted on the contract that these were FALOC asset additions. The City's tax rate of \$27.13/thousand results in an eligible property tax expense of \$6,975.

Pennichuck's charge of \$7,997 was the allocation of engineering management across all the projects related to the Lake Street Area Water Main Improvements-Phase II. The amount is based on the total number of linear feet installed in phase II and the amount of linear feet pertaining to the specific project.

The Continuing Property Records shows cost of removal associated with the project in the amount of \$24,960. The CPRs show assets totaling \$1,422 retired that were associated with the main replacement project. Also provided for Audit's review was the entry to the account 108 – Accumulated Depreciation for the same amount.

Hamilton Street Main Replacement - \$124,206

The Company received three bids for the project with the lowest bidder being chosen for the work. The CAPEX shows that the work order #2003422/01 was in the 2020 Board Approved Budget and was estimated to cost \$87,000 and revised to \$137,000 in November, 2020. The final work order totaled \$124,206. This project, as part of the Lake Street Area Water Main Improvements-Phase II, was to replace 410 linear feet of 6 inch cast iron main with 4 inch DIPCL in Nashua and was financed in docket DW 17-183. The project costs are broken out by vendor below:

<u>2003422/01 Hamilton St. Main Replacement</u>	<u>Amount</u>
Abanese	\$ 119,988
Pennichuck	\$ 4,218
	\$ 124,206

A breakdown of the project costs provided to Audit is shown below which agrees with the amount shown on the general ledger:

Work Order #2003422/01 - Hamilton Street Water Main Replacement

Account	Description	Gross Plant	COR	Gross Book
331002	Pavements - Distribution Mains	\$ 9,429	\$ 943	\$ 10,372
331200	Distribution Mains - New	\$ 98,952	\$ 9,895	\$ 108,847
331250	Distribution Mains: Gate Valves	\$ 5,000	\$ 500	\$ 5,500
333200	Renewed Services	\$ 7,500	\$ 750	\$ 8,250
335000	Fire Protection: Hydrants	\$ 3,325	\$ 333	\$ 3,658
		\$ 124,206	\$ 12,421	\$ 136,626

The major portion of cost for the project came from Albanese D&S, Inc., for replacing water main. It was noted on the contract that these were FALOC asset additions. The City's tax rate of \$27.13/thousand results in an eligible property tax expense of \$3,420.

Pennichuck's charge of \$4,218 included a \$3,705 allocation of engineering management spread across all the projects related to the Lake Street Area Water Main Improvements-Phase II. The amount is based on the total number of linear feet installed in phase II and the amount of linear feet pertaining to the specific project.

The Continuing Property Records shows cost of removal associated with the project in the amount of \$12,421. The CPRs show assets totaling \$522 retired that were associated with the main replacement project. Also provided for Audit's review was the entry to the account 108 – Accumulated Depreciation for the same amount.

Verona Street Main Replacement - \$182,847

The Company received three bids for the project with the lowest bidder being chosen for the work. The CAPEX shows that the work order #2007542/01 was in the 2020 Board Approved Budget and was estimated to cost \$226,000 and revised to \$205,100 in November, 2020. The final work order totaled \$182,847. This project, as part of the Lake Street Area Water Main Improvements-Phase II, was to replace 675 linear feet of 6 inch cast iron main with 8 inch DIPCL in Nashua and was financed in docket DW 17-183. The project costs are broken out by vendor below:

Audit reviewed the invoice breakdown sheet from the vendor provided in the project folder.

<u>2007542/01 Verona St. Main Replacement</u>	<u>Amount</u>
Abanese	\$ 178,369
Pennichuck	\$ 4,478
	\$ 182,847

A breakdown of the project costs provided to Audit is shown below which agrees with the amount shown on the general ledger:

Work Order #2007542/01 - Verona Street Water Main Replacement

Account	Description	Gross Plant	COR	Gross Book
331002	Pavements - Distribution Mains	\$ 10,010	\$ 1,001	\$ 11,011
331200	Distribution Mains - New	\$ 126,637	\$ 12,664	\$ 139,301
331250	Distribution Mains: Gate Valves	\$ 7,500	\$ 750	\$ 8,250
333200	Renewed Services	\$ 30,000	\$ 3,000	\$ 33,000
335000	Fire Protection: Hydrants	\$ 8,700	\$ 870	\$ 9,570
		\$ 182,847	\$ 18,285	\$ 201,132

The major portion of cost for the project came from Albanese D&S, Inc., for replacing water main. It was noted on the contract that these were FALOC asset additions. The City's tax rate of \$27.13/thousand results in an eligible property tax expense of \$4,961.

Pennichuck's charge of \$4,478 included a \$3,934 allocation of engineering management spread across all the projects related to the Lake Street Area Water Main Improvements-Phase II. The amount is based on the total number of linear feet installed in phase II and the amount of linear feet pertaining to the specific project.

The Continuing Property Records shows cost of removal associated with the project in the amount of \$18,285. The CPRs show assets totaling \$873 retired that were associated with the main replacement project. Also provided for Audit's review was the entry to the account 108 – Accumulated Depreciation for the same amount.

Ash Street Main Replacement - \$149,975

The Company received three bids for the project with the lowest bidder being chosen for the work. The CAPEX shows that the work order #2007540/01 was not on the 2020 Board Approved Budget because this project was added due to the Kessler Farm Tank project being deferred until 2021. The project was estimated to cost \$164,300 in November, 2020. The final work order totaled \$149,975. This project, as part of the Lake Street Area Water Main Improvements-Phase II, was to replace 480 linear feet of 6 inch cast iron main with 8 inch and 6 inch DIPCL in Nashua and was financed in docket DW 17-183. The project costs are broken out by vendor below:

2007540/01 Ash Street Main Replacement	Amount
Abanese	\$ 145,731
Pennichuck	\$ 4,245
	\$ 149,975

Albanese D&S, Inc., was contracted to replace the water main. It was noted on the contract that these were FALOC asset additions. The City's tax rate of \$27.13/thousand results in an eligible property tax expense of \$4,069.

Pennichuck's charge of \$4,245 included a \$3,729 allocation of all the engineering management costs spread across all the projects related to the Lake Street Area Water Main

Improvements-Phase II. The amount is based on the total number of linear feet installed in phase II and the amount of linear feet pertaining to the specific project.

The Company booked the cost of the project to the general ledger as seen in the accounts below:

Work Order #2007540/01 - Ash Street Water Main Replacement

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
331002	Pavements - Distribution Mains	\$ 392	\$ 39	\$ 431
331200	Distribution Mains - New	\$ 115,783	\$ 11,578	\$ 127,361
331250	Distribution Mains: Gate Valves	\$ 13,500	\$ 1,350	\$ 14,850
333200	Renewed Services	\$ 18,450	\$ 1,845	\$ 20,295
335000	Fire Protection: Hydrants	\$ 1,850	\$ 185	\$ 2,035
		\$ 149,975	\$ 14,998	\$ 164,973

The Continuing Property Records shows cost of removal associated with the project in the amount of \$14,998. The CPRs show assets totaling \$674 retired that were associated with the main replacement project. Also provided for Audit's review was the entry to the account 108 – Accumulated Depreciation for the same amount.

Vehicle Replacement - \$79,203

Work Order #2004436/01 was for the purchase of a new vehicle for the Company's foreman and approved in order no. 26,121 dated April 20, 2018 in DW 17-183. The cost of the 2021 International was \$79,206 and posted to the general ledger account 341000 – Transportation Equipment on December 1, 2020

The Company's Capital Improvements and Expenditures form states that this was a replacement for a 2011 International, #59 with high mileage and several other mechanical issues. new asset with no associated retirement.

The Company's Record of Bids and Proposals does not show the new vehicle purchase. The Company explained that yes, the foreman's truck was bid for both the truck and utility body portions of this purchase. The Company inadvertently neglected to get the bid information into the Bids & Proposals spreadsheet. The Bid information is as follows:

- Liberty International (2021 MV607 SBA) \$79,206.32
- Freightliner of NH, Inc (2021 M2 106) \$86,500.00
- Custom Truck One Source (2021 MV607 SBA) \$90,410.00

The Utility Box Bodies and additional up-fit options were very specific, and we were able to get 3 quotes for comparable products as follows:

- JC Madigan, Inc (16' Dura Mag Dura-Lite Box body) \$62,500.00
- Dejana Truck & Utility Equipment (16' Dura-Box Pro) \$66,552.96



- Custom Truck One Source offered (Dejana Dura-Box) \$66,500.00

Based on the bids, we have purchased the 2021 International MV607 SBA from Liberty International and the 16' Dura-Mag Utility Box body and up-fit options from J.C. Madigan, Inc.

The new vehicle was posted on December 1, 2020 to the general ledger account 341000 – Transportation Equipment shown below:

Work Order #2004436/01 - New Vehicle

<b>Account</b>	<b>Description</b>	<b>Gross Plant</b>	<b>COR</b>	<b>Gross Book</b>
341000	Transportation Equipment	\$ 79,206	\$ -	\$ 79,206

The CAPEX states that this project had been deferred until year 2020 and no QCPAC eligible property tax expense. The Company stated that there no retirements related to the purchase. Audit reviewed the work order, the dealership sales documentation and the Company's check request and found no exceptions or inconsistencies.

### **Accounting for Funds Under Construction (AFUDC)**

Per the Company's testimony in the prior 2019 rate case that as part of PWW's QCPAC filing, the Company would no longer calculate AFUDC and that they would replace the inclusion of AFUDC for a project total with the interest incurred on the Fixed Asset Line of Credit (FALOC). Audit noted that the Work Order Detail Reports for those projects reviewed did not record any AFUDC. The Company projects it will have incurred about \$68,066 of interest on the debt incurred between May 1, 2020 and April 1, 2021 (when the FALOC borrowings will be paid off with the proceeds from its annual Bond issuance) as it relates to the in process funding of its 2020 QCP's. The final amount of interest capitalized will not be known until after the Company closes on the CoBank FALOC.

### **Overhead Rates**

Overhead rates are input into Synergen by the Senior or Staff Accountant and are automatically calculated and posted to the general ledger when the work orders are posted to the general ledger at the end of the month.

For 2020 the Union overhead rate decreased from 63.20. This rate is calculated on the total Union labor hours for a specific job and is intended to capture the cost of benefits for Union employees while the general overhead rate remained at 2%. The general OH rate is calculated on the total job cost including the union labor rate as described above. The general OH rate is determined by an analysis of the union employee benefits which is reviewed/revised annually as part of the budget process. The Work Order Detail Reports that were reviewed by Audit did not contain any PWW labor.

### **Cost of Removal**

The Continuing Property Records shows the total cost of removal was \$347,969 on the gross investment \$6,641,180. Where the project was a new project, the Company correctly

indicated and booked no cost of removal. Audit noted that the assets reviewed in 2020 all had a cost of removal rate of 10% of the total project cost.

### **Retirements**

Audit requested the list of retired assets and documentation that those assets had been taken off the books and records of PWW associated with the specific projects chosen and PWW produced a spreadsheet that listed those retirements. Audit reviewed the Asset Disposition Report referencing specific general ledger account and traced several quarters to the general ledger for various accounts without exception.

### **Depreciation**

The CPRs show the total depreciation charge of \$183,395 on total additions of \$6,641,180. (\$6,951,260 less \$310,080 consisting of non-physical assets, retainage paid & accrued and FALOC interest). This figure represents a one-half year depreciation charge for 2020 in accordance with utility accounting standards. Audit recalculated several samples from all the plant accounts to verify the accuracy, the rates and the use of half-year convention for new additions. The Company used the straight-line method on the gross book value (after the cost of removal) and the rates used agreed with those specified in docket DW 17-183.

### **Record of Bids and Proposals**

The Company provided the Record of Bids/Proposals for the projects for the fiscal years of 2015 through March 2021 although the document was titled years 2015 through 2019. The bid summary was listed by Project Name, date, work order number and included from one bidding Company and up to three Company's for some projects.

The Company explained the bidding process which includes the criteria that reference a potential contractor's technical ability, their experience successfully completing projects with a similar scope of work and size, their financial stability (the ability to bond), and their references. The bidder the Company selects is determined to be the responsible bidder based on review of their application, and who offers the lowest price to complete the job. The Company stated that they typically already know the majority of contractors that bid on projects. Audit understands that there may be instances when the work that a project requires is more specialized or unique (unlike water main construction), such as well drilling and construction. In this case, the Company explained that they would prequalify the bidders to ensure potential contractors are capable of completing the type of well the Company needs. All work order indicated the lowest bidder was the chosen bidder.

### **Taxes**

Audit reviewed the Towns of Nashua and Merrimack tax bills for 2020 which showed Nashua listing their property tax rate at \$22.61 per thousand of valuation. The Town of Merrimack lists their 2020 property tax rate at \$24.06 per thousand of valuation. The CAPEX shows the QCPAC eligible property tax expense rates for Nashua of \$27.13 and Merrimack at \$28.52.

The Nashua property tax amount shown on the CAPEX of \$27.13 was derived by taking \$22.61 less the \$2.08 State School tax plus the \$6.60 State Utility tax. The Merrimack property tax amount shown on the CAPEX of \$28.52 was derived by taking \$24.06 less the State Education tax of \$2.14 plus the \$6.60 State Utility tax. Audit verified the rates from the tax bills provided.

### **Revenues**

PWW applied a one-time recoupment charge to recover the cost of the debt service and property taxes incurred during the period between the bond issuance date and the date on which the 2020 QCPAC was implemented. All customer classes were charged based on the customer charge, the actual usage and fire protection in accordance with the 4.06% surcharge that was stipulated in order number 26,298 dated October 9, 2019. In PWW's rate case, DW 19-084, the Commission issued order no. 26,425 on November 24, 2020, increasing the Company's base rates which resulted in resetting its QCPAC to 0.00 percent.

### **Summary**

In Summary, the Company submitted projects in the amount of \$6,951,260 and an initial tax impact of \$157,103. After reviewing the material submitted, the Company has shown that these projects were used and useful and booked to the appropriate plant accounts as of 12/31/2020; financed by debt approved by the Commission in DW 17-183, and that the projects in question had been submitted to the PUC as part of DW 21-023. Support for project costs was provided in the form of the general ledger (GL) balances, journal entries, work orders, work order detail reports, E-22's, invoices and Excel spreadsheets.