STATE OF NEW HAMPSHIRE
Inter-Department Communication

DATE: January 16, 2020
AT (OFFICE): NHPUC

FROM: Audit Staff
NH Public Utilities Commission

SUBJECT: Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
DE 19-064 – Test Year 12/31/2018
Final Audit Report

TO: Tom Frantz, Director, Electric Division, NHPUC
Rich Chagnon, Assistant, Director Electric Division, NHPUC
Jay Dudley, Utility Analyst IV

Introduction

On March 27, 2019, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (GSE, Company) filed a notice of intent to file rate schedules. The noticed rate filing schedules were provided to the Commission on April 30, 2019.

Base rates in effect during the test year were approved in docket DE 16-383 via Order 26,005, based on a 12/31/2015 test year.

Audit thanks the following Liberty employees for their assistance during the audit fieldwork: Dave Simek; Heather Tebbetts; Cynthia Trottier; Darleen Helie; Pam Moriarty; Jim Bonner, and others.

Corporate Structure

As outlined within the FERC Form 1, page 102, the corporate structure of Liberty Utilities (Granite State Electric) Corp. (GSE) is:
GSE is 100% owned by
Liberty Energy Utilities (New Hampshire) Corp., a Delaware corporation which is 100% owned by
Liberty Utilities Co., a Delaware corporation which is 100% owned by
Liberty Utilities (America) Holdco, Inc., a Delaware corporation which is 100% owned by
Liberty Utilities (America) Holdings, LLC, a Delaware limited liability corporation which is 100% owned by
Liberty Utilities (America) Co., a Delaware corporation which is 100% owned by
Liberty Utilities (Canada) Corp., a Canada corporation which is 100% owned by
Algonquin Power & Utilities Corp., a Canada corporation which is publicly traded.
According to Algonquin Power & Utilities Corp. website, www.AlgonquinPowerandUtilities.com:

"Algonquin Power & Utilities Corp. is a North American diversified generation, transmission and distribution utility with $10 billion of total assets. Liberty Utilities provides rate regulated natural gas, water and electricity generation, transmission and distribution utility services to over 758,000 customers in the United States. APUC is committed to being a North American leader in the generation of clean energy through its portfolio of long term contracted wind, solar and hydroelectric generating facilities representing more than 1,150 MW of installed capacity. APUC delivers continuing growth through an expanding pipeline of renewable energy development projects, organic growth within its rate regulated generation, distribution and transmission businesses, and the pursuit of accretive acquisitions. Common shares and preferred shares are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A, and AQN.PR.D. APUC's common shares are also listed on the New York Stock Exchange under the symbol AQN." Underline added by PUC Audit.

Management and Structure

Liberty provides the Commission with a quarterly organizational chart, in compliance with the Commission Order 25,370 issued in the EnergyNorth docket DG11-040. As noted in the audit report issued in DE 16-383, Audit also reviewed the FERC Form 1 annual reports from 2012 through 2018, and notes the following:

The position of NH President has changed six times in five years:
President – V. DelVecchio July 2012 – December 31, 2013
President – R. Leehr January 1, 2014 – July 31, 2014
President – D. Saad August 1, 2014 – September 23, 2015
President – D. Swain September 23, 2015 – December 31, 2016
President – J. Sweeney January 1, 2017 – September 4, 2017
President – S. Fleck September 15, 2017 - current

Affiliate Service Agreements

During the test year, the workforce in New Hampshire, for both GSE and EnergyNorth Natural Gas (ENG), were direct employees of Liberty Utilities Services Company (LUSC). Refer to the Payroll portion of this report.

A money-pool agreement was proposed by the Company, reviewed by Commission Staff, and approved by the Commission, via Secretarial Letter in docket DA 17-188

Cost Allocation Manual (CAM)

As outlined in the CAM, costs incurred at the APUC level are directly charged if possible. Costs at the APUC level include strategic management, access to capital, corporate governance, and administration.

ALLOCATIONS

Audit requested and was provided with the Cost Allocation Manual (CAM) that was in place during the test year. The CAM became effective July 1, 2015.

The company identification relating to the New Hampshire utilities was included within the spreadsheet for the Cost Allocation Manual calculation for April 2018:

Liberty Utilities Citrix
New Hampshire Database

8810	Liberty Energy Utilities (New Hampshire) Corp.	NH
8811	Liberty Energy Utilities (New Hampshire) Corp - Consolidation	NH
8820		
8830	Liberty Utilities (Granite State Electric) Corp	GS
8831	Pre Acquisition Granite State Electric Company	GS
8832	Liberty Utilities (Granite State Electric) Corp - Consolidation	GS
8840	Liberty Utilities (Energy North Natural Gas) Corp	EN
8841	Pre Acquisition Energy North Natural Gas Inc	EN
8842	Liberty Utilities (Energy North Natural Gas) Corp - consolidation	EN
8843	NH Gas Co	EN
8844	NH gas consolidation co	EN

Algonquin Power & Utilities Corp (APUC)

The CAM outlines that costs incurred at the APUC level are directly charged if possible. Costs at the APUC level include strategic management, access to capital, financial control costs, and administration.

Allocation methodologies applied to the specified indirect costs are allocated at noted percentages based on the information identified:

APUC Indirect Cost Allocation Methodology

	Number of Employees	Net Plant	Operations &Maintenance	Revenue
Legal	33.3%	33.3%	33.3%	
Tax		33.3%	33.3%	33.3%
Audit		33.3%	33.3%	33.3%
Investor Relations		33.3%	33.3%	33.3%
Director Fees and Insurance		33.3%	33.3%	33.3%
Licenses, Fees and Permits		33.3%	33.3%	33.3%
Escrow and Transfer Agent Fees		33.3%	33.3%	33.3%
Other Professional Services		33.3%	33.3%	33.3%

	Oakville Employees	Square Footage by Oakville Employees
Office Administration	50%	50%

Liberty Utilities (Canada) Corp. (LUC)

Costs at the LUC level include strategy, policies, procedures such as finance and capitalization policies, human resources (at the payroll/benefits policy level), regulatory affairs, pipeline safety, information technology, and customer service strategy. Costs at this level provide standardization across the Liberty Utilities' regulated companies, and are allocated based on a four factor allocation. The factors are net plant 20%, customer count 40%, expenses 20%, and labor 20%. During the test year, the (rounded) factors were:

	4/2017 – 3/2018	4/2018 – 3/2019
Liberty Water	07.38%	07.53%
Calpeco	06.18%	06.64%
Granite State	**05.56%**	**05.29%**
EnergyNorth	**10.90%**	**10.71%**
Midstates Gas	07.47%	07.28%
Midstates Water	00.34%	00.31%
Arkansas	01.75%	01.70%
Woodson Hensley	00.04%	00.05%
Georgia	05.86%	05.79%
New England Gas	06.60%	06.56%
Whitehall-Water	00.19%	00.21%
Whitehall-Sewer	00.20%	00.22%
Parkwater	05.43%	05.74%
Empire	42.11%	41.98%
	100.1%	100.1%

Overhead/Burden Rate

Audit requested the overhead/burden rate in place for the test year and was provided with the methodology, based on budgets for 2018. The rates were calculated for January 2018:

Use For Service Billings	Costs	2018	% of Tota	% of Payroll	Notes/Comments
X	Rent/Facilities/utilities/copiers	202,715	0.0069	**0.0072**	2018 lease
X	Telephone/internet	2,380,500	0.0810	**0.0849**	2018 telephone and internet
X	Insurance	1,539,665	0.0524	**0.0549**	2018 insurance budget
X	Pensions and Benefits	12,843,337	0.4369	**0.4582**	2018 budget
X	TNW	2,847,372	0.0969	**0.1016**	2018 payroll file
X	Incentive Awards @ target	2,161,386	0.0735	**0.0771**	2018 ayroll file
X	Payroll Taxes	2,559,241	0.0871	**0.0913**	2018 budget
	Back Office Labor	2,459,128	0.0837	0.0877	2018 payroll file
	Finance Non-labor	351,053	0.0119	0.0125	2018 budget
	HR Non-labor	383,180	0.0130	0.0137	2018 budget
	Regulatory Non-labor	198,096	0.0067	0.0071	2018 budget
	Legal Non-labor	62,370	0.0021	0.0022	2018 budget
	Executive Non-labor	197,072	0.0067	0.0070	2018 budget
	Procurement Non-labor	1,212,257	0.0412	0.0432	2018 budget
	Total Costs	29,397,372	1.0000	**1.0488**	
	Total 2017 budgeted payroll excluding Incentive, TNW, Back Office Labor	28,030,165			
	Calculation:				
	Divide total cost by total payroll	**104.9%**	**Baseline**		
X	**BURDEN FOR SERVICE BILLINGS**			**87.5%**	

The burden calculation is then split between GSE and ENG:

		GSE		ENG	
		30%		**70%**	
X	Rent/Facilities/utilities/copiers	60,815	**0.7%**	141,901	**0.7%**
X	Telephone/internet	714,150	**8.5%**	1,666,350	**8.5%**
X	Insurance	461,900	**5.5%**	1,077,766	**5.5%**
X	Pensions and Benefits at **40% and 60%**	**5,137,874**	**61.4%**	**7,705,463**	**39.2%**
X	TNW	854,212	**10.2%**	1,993,160	**10.2%**
X	Incentive Awards @ target	648,416	**7.8%**	1,512,970	**7.7%**
X	Payroll Taxes	767,772	**9.2%**	1,791,469	**9.1%**
	Back Office	737,738	8.8%	1,721,390	8.8%
	Finance Non-labor	105,316	1.3%	245,737	1.3%
	HR Non-labor	114,954	1.4%	268,226	1.4%
	Regulatory Non-labor	59,429	0.7%	138,667	0.7%
	Legal Non-labor	18,711	0.2%	43,659	0.2%
	Executive Non-labor	59,122	0.7%	137,950	0.7%
	Procurement Non-labor	363,677	4.3%	848,580	4.3%
	Total Costs and Burden Rate	10,104,085	120.8%	19,293,288	98.3%
	2018 payroll budget (excludes bonus, other burden labor)	8,366,462	100%	19,633,703	100%

The Pension and Benefits split between GSE and ENG for the January 2018 burden rate calculation was at 40% and 60%, rather than 30% and 70%.

GSE	$ 5,137,874	40%
ENG	$ 7,705,463	60%
Total	$12,843,337	100%

The Company stated that the Pensions and Benefits are calculated individually for each utility by the actuary. Audit verified that the Pension and Benefit expense account #926 for both utilities do reflect a 40% 60% split. Refer to Discovery in this docket, OCA 1-39, OCA 1-40, Staff 2-1, among others.

The Company updated the spreadsheet in July 2018, but the actual rates did not change.

Liberty Utilities Regional

Costs at the LU Regional level are allocated based on a four factor allocation. The factors are net plant 25%, customer count 25%, expenses 25%, and labor 25%. During the test year, the (rounded) factors were:

	4/2017 – 3/2018	4/2018 – 3/2019
Liberty Water	06.55%	06.80%
Calpeco	06.12%	06.65%
Granite State	**05.46%**	**05.16%**
EnergyNorth	**10.65%**	**10.45%**
Midstates Gas	06.60%	06.39%
Midstates Water	00.35%	00.31%
Arkansas	01.57%	01.50%
Woodson Hensley	00.03%	00.04%
Georgia	05.20%	05.13%
New England Gas	06.45%	06.38%
Whitehall-Water	00.18%	00.20%
Whitehall-Sewer	00.18%	00.21%
Parkwater	05.21%	05.54%
Empire	45.45%	45.24%
	100.0%	100.0%

Corporate Internal Audit

Audit requested a listing of corporate internal audits which have been conducted since the prior rate case. An internal audit division was also established within the eastern region (of the US) in October 2018. A request for the listing of audits completed by that division was also issued. Audit was provided with several emails between D. Simek, Manager, Rates and Regulatory Affairs and L. Lelli, Senior Manager, Internal Audit Liberty Algnquin Business Services (USA). Each communication reflected the request for a list of the audits done. However, a list was not provided for either internal audit staff. Mr. Lelli indicated that a Capital Projects audit was completed, along with SOX (Sarbanes-Oxley) testing. D. Gilpin, Vice President, Internal Audit Liberty Algonquin Business Services also confirmed that Mr. Lelli's representation of the completed audits were the only ones conducted which related to GSE.

In the prior rate case audit, an identical request for a list of audits conducted resulted in the Company providing the following:

SOX Compliance – Testing of Internal Controls over Financial Reporting
Commodity Transacting – APCo
Enterprise Risk Management
Meter to Cash – LU
Regulatory Compliance – APCo

Because a listing of each internal audit division's work since the prior rate case was not provided, PUC Audit cannot determine the activities conducted.

External Audits

The Company indicated that financial audits for the years ending 12/31/2015, 12/31/2016, 12/31/2017, and 12/31/2018 were conducted by Ernst and Young, and are the only external audits conducted for Liberty Utilities (Granite State Electric) Corp. since the prior test year of 2015.

Overview of the FERC and General Ledger to the Filing

Audit compiled a comparative summary of the FERC Form 1 reports from the prior test year 2015, through the current 2018 test year. The balance sheet has increased from $171 million at year-end 2015 to $204 million at year-end 2018, or 20%. The filing schedule RR-4 reflects an overall balance sheet of $230,188,584, or $25,285,768 more than the FERC Form 1. **Audit Issue #1**

	FERC Form 1 12/31/2015	12/2015 per 2016 form	FERC Form 1 12/31/2016	FERC Form 1 12/31/2017	FERC Form 1 12/31/2018
Utility Plant	$ 144,066,569	$ 197,251,303	$ 215,485,802	$ 229,296,015	$ 249,231,095
Construction Work in Progress	$ 3,785,584	$ 3,785,584	$ 2,852,953	$ 4,595,976	$ 3,907,980
TOTAL Utility Plant	$ 147,852,153	$ 201,036,887	$ 218,338,755	$ 233,891,991	$ 253,139,075
(Less) Accum Provision for Dep, Amort, Depl	$ (14,348,830)	$ (67,533,564)	$ (72,886,102)	$ (79,789,128)	$ (93,623,954)
Net Utility Plant	**$ 133,503,323**	**$ 133,503,323**	**$ 145,452,653**	**$ 154,102,863**	**$ 159,515,121**
Non-utility Property (121)	**$ 32,086**	**$ 32,086**	**$ 32,086**	**$ 32,086**	**$ 32,086**
Cash (131)	$ 48	$ 48	$ 14,641	$ 41,970	$ 61,175
Special Deposits (132-134)	$ 25,467	$ 25,467	$ 25,570	$ 25,850	$ 26,339
Customer Accounts Receivable (142)	$ 14,125,946	$ 14,125,946	$ 10,559,752	$ 12,254,094	$ 13,051,794
Other Accounts Receivable (143)	$ 250,251	$ 250,251	$ 255,054	$ 344,476	$ 107,061
(Less) Accum. Provision for Uncollectible credit (144)	$ (1,517,655)	$ (1,517,655)	$ (1,305,839)	$ (1,083,527)	$ (818,355)
Accounts Receivable from Associated Companies (146)	$ 11,844	$ 11,844	$ 18,655	$ 13,910	$ 5,942
Plant Materials and Supplies (154)	$ 1,605,519	$ 1,605,519	$ 1,875,160	$ 2,242,637	$ 1,877,163
Stores Expense Undistributed (163)	$ 62,710	$ 62,710	$ 53,563	$ -	$ -
Prepayments (165)	$ 1,188,847	$ 1,188,847	$ 2,013,258	$ 1,098,632	$ 1,081,231
Accrued Utility Revenues (173)	$ 2,012,042	$ 2,012,042	$ 1,663,278	$ 1,868,867	$ 1,773,168
Miscellaneous Current and Accrued Assets (174)	$ -	$ -	$ -	$ -	$ -
Total Current and Accrued Assets	**$ 17,765,019**	**$ 17,765,019**	**$ 15,173,092**	**$ 16,806,909**	**$ 17,165,518**
Unamortized Debt Expenses (181)	$ 21,542	$ 21,542	$ 18,923	$ -	$ 29,711
Other Regulatory Assets (182.3)	$ 20,480,995	$ 20,480,995	$ 18,964,275	$ 28,217,123	$ 27,884,536
Preliminary Survey and Investigation Charges Electric (183)	$ 143,477	$ 143,477	$ 155,034	$ 1,672,711	$ 169,765
Clearing Accounts (184)	$ 23,152	$ 23,152	$ 7,782	$ (125,385)	$ 106,080
Miscellaneous Deferred Debits (186)	$ -	$ -	$ -	$ -	$ -
Accumulated Deferred Income Taxes (190)	$ -	$ -	$ -	$ -	$ -
Total Deferred Debits	**$ 20,669,166**	**$ 20,669,166**	**$ 19,146,014**	**$ 29,764,449**	**$ 28,190,092**
TOTAL ASSETS	**$ 171,969,594**	**$ 171,969,594**	**$ 179,803,845**	**$ 200,706,307**	**$ 204,902,817**

	FERC Form 1 12/31/2015	12/2015 per 2016 form	FERC Form 1 12/31/2016	FERC Form 1 12/31/2017	FERC Form 1 12/31/2018
Common Stock Issued (201)	$ 6,040,000	$ 6,040,000	$ 6,040,000	$ 6,040,000	$ 6,040,000
Other Paid-in Capital (208-211)	$ 75,984,903	$ 75,984,903	$ 75,984,903	$ 75,984,903	$ 92,984,903
Retained Earnings (215, 215.1, 216)	$ 9,636,936	$ 9,636,936	$ 13,228,137	$ 16,910,187	$ 4,535,099
Accumulated Other Comprehensive Income (219)	$ (1,638,476)	$ (1,638,476)	$ (1,172,676)	$ (309,176)	$ 160,041
Total Proprietary Capital	**$ 90,023,363**	**$ 90,023,363**	**$ 94,080,364**	**$ 98,625,914**	**$ 103,720,043**
Bonds (221)	$ 15,000,000	$ 15,000,000	$ 15,000,000	$ 14,966,525	$ 15,000,000
Advances from Associated Companies (223)	$ 17,000,000	$ 17,000,000	$ 17,000,000	$ 17,000,000	$ 17,000,000
Total Long Term Debt	**$ 32,000,000**	**$ 32,000,000**	**$ 32,000,000**	**$ 31,966,525**	**$ 32,000,000**
Accumulated Provision for Injuries and Damages (228.2)	$ 315,370	$ 315,370	$ 136,307	$ 134,073	$ 17,737
Accumulated Provision for Pensions and Benefits (228.3)	$ 21,511,667	$ 21,511,667	$ 19,262,131	$ 15,838,509	$ 14,699,662
Asset Retirement Obligations (230)	$ 151,938	$ 151,938	$ 158,269	$ -	$ -
Total Other Non-current Liabilities	**$ 21,978,975**	**$ 21,978,975**	**$ 19,556,707**	**$ 15,972,582**	**$ 14,717,399**
Accounts Payable (232)	$ 31,334	$ 31,334	$ -	$ -	$ -
Accounts Payable to Associated Companies (234)	$ (4,469,106)	$ (4,469,106)	$ (1,810,805)	$ 8,973,008	$ 11,350,016
Customer Deposits (235)	$ 777,252	$ 777,252	$ 782,605	$ 1,203,236	$ 1,278,349
Taxes Accrued (236)	$ -	$ -	$ -	$ -	$ -
Interest Accrued (237)	$ 142,792	$ 142,792	$ 142,792	$ 142,791	$ 142,792
Tax Collections Payable (241)	$ 42,767	$ 42,767	$ 41,164	$ 41,579	$ 43,247
Miscellaneous Current and Accrued Liabilities (242)	$ 9,864,778	$ 9,864,778	$ 9,006,663	$ 8,918,501	$ 9,841,558
Total Current and Accrued Liabilities	**$ 6,389,817**	**$ 6,389,817**	**$ 8,162,419**	**$ 19,279,115**	**$ 22,655,962**
Customer Advances for Construction (252)			$ -	$ 240	$ -
Other Deferred Credits (253)	$ 124,872	$ 124,872	$ 121,410	$ 120,809	$ 118,383
Other Regulatory Liabilities (254)	$ 17,421,588	$ 17,421,588	$ 19,421,287	$ 21,769,535	$ 21,716,340
Accumulated Deferred Income Taxes Other (283)	$ 4,030,979	$ 4,030,979	$ 6,461,658	$ 12,971,587	$ 9,974,690
Total Deferred Credits	**$ 21,577,439**	**$ 21,577,439**	**$ 26,004,355**	**$ 34,862,171**	**$ 31,809,413**
Total Liabilities and Stockholder Equity	**$ 171,969,594**	**$ 171,969,594**	**$ 179,803,845**	**$ 200,706,307**	**$ 204,902,817**

The 2017 and 2018 income statements, per the FERC Form 1, are summarized below and indicate the percentage changes year over year. At year-end 2018, the net income of the Company, $(4,655,041) represents a 26% increase over the 2017 net income of $(3,682,050):

	FERC For 1 12/31/2017	% Change from prior year end	FERC For 1 12/31/2018	% Change from prior year end
Utility Operating Revenues (400)	$ (95,564,754)	7%	$ (101,804,082)	7%
Operation Expenses (401)	$ 67,078,830	1%	$ 74,503,238	11%
Maintenance Expenses (402)	$ 2,555,269	-26%	$ 3,791,468	48%
Depreciation Expenses (403)	$ 5,788,640	5%	$ 6,167,294	7%
Depreciation Expense for Asset Retirement Costs (403.1)	$ -	#DIV/0!	$ -	#DIV/0!
Amortization/Depletion of Utility Plant (404-405)	$ 2,331,346	33%	$ 2,156,872	-7%
Regulatory Debits (407.3)	$ 207,910	347%	$ 359,904	73%
Taxes Other than Income (408.1)	$ 6,062,458	39%	$ 5,414,088	-11%
Income Taxes-Federal (409.1)	$ 32,612	12%	$ 195,457	499%
Income Taxes -Other (409.1)	$ 88,293	-17%	$ 47,680	-46%
Provision for Deferred Income Taxes (410.1)	$ 5,876,001	196%	$ 2,568,359	-56%
(Less) Provision for Deferred Income Taxes-credit (411.1)	$ -	#DIV/0!	$ -	#DIV/0!
Investment Tax Credit Adjustment net (411.4)	$ -	#DIV/0!	$ -	#DIV/0!
Total Utility Operating Expenses	$ 90,021,359	8%	$ 95,204,360	6%
NET UTILITY OPERATING INCOME (LOSS)	**$ (5,543,395)**	-204%	**$ (6,599,722)**	19%
(less) expenses of non-utility operations				
Interest and Dividend Income (419)	$ (40,863)	76%	$ (241,883)	492%
Allowance for Funds Used during Construction (419.1)	$ (97,017)	21%	$ (63,639)	-34%
Miscellaneous Non-operating Income (421)	$ -	#DIV/0!		#DIV/0!
(Gain) or Loss on Disposition of Property (421.1)	$ -	#DIV/0!	$ -	#DIV/0!
Total Other Income	$ (137,880)	33%	$ (305,522)	122%
Donations (426.1)	$ 11,366	399%	$ 12,055	6%
Life Insurance (426.2)	$ -	#DIV/0!	$ -	#DIV/0!
Penalties (426.3)	$ -	#DIV/0!	$ -	#DIV/0!
Expenses for civic political & related activities (426.4)	$ 17,887	-7%	$ 32,526	82%
Other Deducations (426.5)	$ 161	#DIV/0!	$ 4,589	2750%
Total Other Income Deductions	$ 29,414	37%	$ 49,170	67%
Income Taxes-Federal (409.2)	$ (32,612)	12%	$ (7,173)	-78%
Income Taxes-Other (409.2)	$ (8,569)	12%	$ (2,930)	-66%
Provision for Deferred Income Taxes (410.2)	$ 12,746	-82%	$ (3,879)	-130%
Total Taxes on Other Income and Deductions	$ (28,435)	-186%	$ (13,982)	-51%
Net Other (Income)/Loss and Deductions	**$ (136,901)**	180%	**$ (270,334)**	97%
Interest on Long-term Debt (427)	$ 1,130,500	0%	$ 1,130,500	0%
Amortization of Debt Discount & Expense (428)	$ 2,619	0%	$ 2,619	0%
Interest on Debt to Associated Companies (430)	$ 753,055	0%	$ 777,839	3%
Other Interest Expense (431)	$ 171,955	-373%	$ 343,678	100%
(Less) Allowance for Borrowed Funds Used during Construction Cr-(432)	$ (59,883)	47%	$ (39,621)	-34%
NET Interest Charges	$ 1,998,246	12%	$ 2,215,015	11%
NET INCOME	**$ (3,682,050)**		**$ (4,655,041)**	26%

Net Plant in Service $159,515,121

	FERC Form 1 12/31/2015	12/2015 per 2016 form	FERC Form 1 12/31/2016	FERC Form 1 12/31/2017	FERC Form 1 12/31/2018
Utility Plant	$ 144,066,569	$ 197,251,303	$ 215,485,802	$ 229,296,015	$ 249,231,095
Construction Work in Progress	$ 3,785,584	$ 3,785,584	$ 2,852,953	$ 4,595,976	$ 3,907,980
TOTAL Utility Plant	$ 147,852,153	$ 201,036,887	$ 218,338,755	$ 233,891,991	$ 253,139,075
(Less) Accum Provision for Dep, Amort, Depl	$ (14,348,830)	$ (67,533,564)	$ (72,886,102)	$ (79,789,128)	$ (93,623,954)
Net Utility Plant	**$ 133,503,323**	**$ 133,503,323**	**$ 145,452,653**	**$ 154,102,863**	**$ 159,515,121**

The filing schedule RR-2-1 does not include CWIP balance. Reported Plant in Service at 12/31/2018, per the FERC Form 1 was a net $159,515,121. The filing schedule RR-4 reflects a total Net Utility Plant of $158,015,121, which correctly excludes $1,500,000 Plant Held for Future Use. The $1,500,000 is reflected on schedule RR-4 as part of Other Assets on line 22, total $10,920,148.

The detailed plant in service FERC pages 204-207 sum to the $247,731,095. Page 200 reflects $247,731,095, $1,500,000 Property Held for Future Use, and $15,227,964 Completed Construction not Classified. The three sum to the $253,139,075. The balance sheet on page 110 reflects Utility Plant in Service of $159,515,121 which is the $253,139,075 net of accumulated depreciation $(93,623,954). The accumulated depreciation figure was noted on the FERC Form 1 page 200 as a credit on line 14.

UTILITY PLANT	General Ledger	FERC at 12/31/2018	GL minus FERC
Utility Plant (101-106, 114)	:		
8830-2-0000-10-1610-3600 Land and Land Rights	$ 1,672,947.00	$ 1,672,946	$ 1.00
8830-2-0000-10-1615-1010 Plant in Service	$ -		
8830-2-0000-10-1615-1012 Plant in Service - ARO			$ -
8830-2-0000-10-1615-1020 Plant Purchased or Sold	$ -		
8830-2-0000-10-1615-1060 Plant in Service-not classified	**$ 15,227,964.00**	**$ -**	$ 15,227,964.00
8830-2-0000-10-1615-3610 Strucutures and Improvements	$ 1,965,160.00	$ 1,965,160	$ -
8830-2-0000-10-1615-3620 Stationing Equipment	$ 28,894,637.00	$ 30,756,050	$ (1,861,413.00)
8830-2-0000-10-1615-3640 Poles, Towers, and Fixtures	$ 40,575,975.00	$ 41,667,045	$ (1,091,070.00)
8830-2-0000-10-1615-3650 Overhead Conductors and Devices	$ 58,746,906.00	$ 65,174,236	$ (6,427,330.00)
8830-2-0000-10-1615-3660 Distn-Underground Conduit-Manholes	$ 3,335,646.00		
8830-2-0000-10-1615-3661 Underground Conduit	$ 3,339,324.00	$ 6,948,380	$ (273,410.00)
8830-2-0000-10-1615-3670 Underground Conductors and Devices	$ 14,932,982.00	$ 17,274,058	$ (2,341,076.00)
8830-2-0000-10-1615-3680 Line Transformers	$ -		
8830-2-0000-10-1615-3681 Line Transformers-cost	$ 14,871,882.00		
8830-2-0000-10-1615-3682 Line Transformers-Install	$ 14,191,730.00	$ 29,638,555	$ (574,943.00)
8830-2-0000-10-1615-3690 Services	$ 8,785,173.00		
8830-2-0000-10-1615-3691 Services -Conduit	$ 159,717.00		
8830-2-0000-10-1615-3692 Services -Cable	$ 1,492,851.00	$ 11,634,212	$ (1,196,471.00)
8830-2-0000-10-1615-3700 Meters	$ 1,404,269.00		
8830-2-0000-10-1615-3701 Meters-Install	$ 776,588.00		
8830-2-0000-10-1615-3702 LRG Meter-Cost	$ 1,009,408.00		
8830-2-0000-10-1615-3703 LRG Meter-Install	$ 317,102.00	$ 3,688,487	$ (181,120.00)
8830-2-0000-10-1615-3720 Leased Property on Customer Premises	$ 1,167,465.00	$ 1,207,584	$ (40,119.00)
8830-2-0000-10-1615-3730 Street Lighting and Signal Systems	$ 4,486,838.00		
8830-2-0000-10-1615-3731 St Lighting & Signal Sys-UG	$ 1,066,628.00	$ 5,626,782	$ (73,316.00)
8830-2-0000-10-1615-3890 Land & Land Rights	$ 1,620,372.00	$ 1,620,372	$ -
8830-2-0000-10-1615-3900 General Structures & Improvmnt	$ 8,934,141.00	$ 9,309,800	$ (375,659.00)
8830-2-0000-10-1615-3910 Office Furniture and Improvement	$ 155,103.00		
8830-2-0000-10-1615-3911 Gen. Office Equipment Computers	$ 460,853.00		
8830-2-0000-10-1615-3912 Gen. LapTop Computers	$ 231,165.00	$ 847,121	$ -
8830-2-0000-10-1615-3920 Transportation Equipment	$ 2,730,590.00	$ 3,114,734	$ (384,144.00)
8830-2-0000-10-1615-3930 Stores Equipment	$ 161,336.00	$ 169,656	$ (8,320.00)
8830-2-0000-10-1615-3940 Tools, Shop, and Garage Equipment	$ 317,359.00	$ 380,905	$ (63,546.00)
8830-2-0000-10-1615-3950 Laboratory Equipment	$ 270,548.00	$ 292,492	$ (21,944.00)
8830-2-0000-10-1615-3960 Power Operated Equipment	$ 1,466,922.00	$ 1,522,432	$ (55,510.00)
8830-2-0000-10-1615-3970 Communications Equipment	$ 1,774,066.00		
8830-2-0000-10-1615-3971 Comm Equip-site specific	$ 54,352.00	$ 1,864,962	
8830-2-0000-10-1615-3980 Misc. Equipment	$ 120,736.00	$ 149,205	
8830-2-0000-10-1647-3010 Intangible Plant-Organization	$ 24,808.00	$ 24,808	
8830-2-0000-10-1647-3030 Misc. Intangible Plant	$ 10,987,554.00	$ 11,181,113	
Total 2 Utility Plant (101-106, 114)	**$ 247,731,097.00**	**$ 247,731,095**	**$ (2.00)**
8830-2-0000-10-1618-1070 Construction Work In Progress	$ 3,907,980.00	$ 3,907,980.00	
8830-2-0000-10-1610-1050 Plant Held for Future Use	$ 1,500,000.00	$ 1,500,000.00	
Total Utility Plant	$ 253,139,077.00	$ 253,139,075.00	$ (2.00)

Audit reviewed the Company capital and expense policy from October 2018. Prior to this, the Company indicated the expensing/capitalization procedures had not changed since 2013. The Company indicated the Work Order IT system does not categorize capital and operations and maintenance expenses. The field staff and engineers charge capital jobs when they are doing capital work and they charge expense when they are doing expense work. If the field staff is unsure whether to charge operations and maintenance or capital they contact plant accounting who follows the policy, then informs field staff where to charge.

		TOTAL PLANT ACTIVITY 2016 - 2018						FERC ending
	Beginning Bal	Additions	Retirements	Adjustments	Transfers	Ending Balance		pg 207 ln 100
1/1/2016	$ 197,251,302	$ 20,033,872	$ (1,363,662)	$ (435,710)	$ -	$ 215,485,802	12/31/2016	$215,485,802
1/1/2017	$ 215,485,802	$ 14,544,197	$ (838,120)	$ 104,136	$ -	$ 229,296,015	12/31/2017	$229,296,015
1/1/2018	$ 229,296,015	$ 19,589,153	$ (991,525)	$ (162,547)	$ -	$ 247,731,096	12/31/2018	$247,731,095
		$ 54,167,222	$ (3,193,307)	$ (494,121)	$ -			

Test of Additions Closed to Plant since the Prior Audit

Audit requested a listing of projects which were closed to plant in service accounts in 2016, 2017, and 2018. The listing was provided and included five projects in 2016, summing to $4,048,633; sixteen projects in 2017, summing to $18,062,282; and two projects in 2018 which sum to $3,553,862. PUC Audit's review of projects does not express an opinion regarding the engineering prudence of the work.

Project	Work Order #	Job Des.	Booked to Plant	Unitized 106 Amt.
8830-C36423	8830-25000019	Subs. Design	11/29/2017	$3,729,263
8830-C36424	8830-17344404	Manhole/Duct Work	12/29/2017	$1,017,246
8830-C18603	8830-18002934	Bare Con. Replace.	4/25/2018	$1,636,887
8830-CNN025	8830-9800-SPA15	IT Systems & Equip.	3/31/2017	$229,451
8830-CNN025	8830-9800-Web	IT Systems & Equip.	3/31/2017	$132,158
8830-1746	301746-04001	First Res. Mob. App.	4/25/2018	$150,000
8830-C18710	8830-11103235	Rep. RTUs Sub. Stat.	4/30/2017	$676,436
8830-CNN027	8830-GS16000011	F550 Trouble Truck rep.	7/24/2017	$146,298
8830-CNN026	8830-GS16000026	AED for Trucks	7/24/2017	$21,000
8830-OTH112	8830-GS16000027	Salem Pole Pile Rep.	5/31/2017	$68,422
8830-C36435	8830-152254188	Leb. Low Volt/Over.	4/30/2016	$795,787
8830-1726	301726-04001	Digger Truck-Leb.	4/25/2018	$241,756
8830-C36431	3017XX-01008	14L4 Feeder	5/25/2018	$574,767
8830-C36425	8830-180000912	Mt. Supp. 16L5 Leb.	12/29/2017	$1,273,855
Total				$10,693,326

Purchase Order and Invoice Authorization limits were requested and provided:

Title	Corporate	Liberty Region	APCo Region
President	$1,000,000	$ 500,000	$ 500,000
Senior Vice President	$ 500,000	$ 250,000	$ 250,000
Vice President	$ 250,000	$ 100,000	$ 100,000
Senior Director	$ 150,000	$ 75,000	$ 75,000
Director	$ 100,000	$ 75,000	$ 75,000
Senior Manager	$ 50,000	$ 35,000	$ 35,000
Manager	$ 25,000	$ 25,000	$ 25,000

Any commitment of funds in excess of a Regional President level of $500,000 must be acknowledged at the Corporate level prior to the commitment being released to the vendor. Also noted within the Policies and Procedures for Capital Expenditures are requirements for the following documentation:

- Business Case detailing the need, justification, and overall cost estimate for the project;
- Capital Expenditure Summary outlining the project costs;
- Spending Schedule which tracks expenses as the project progresses;
- Over-spending Request form for any overspend in excess of 10% of initial cost.

The charts below represent the Budgeted vs Actual for the filed E-22's that include the entire project. Audit sampled the Projects at the work order level.

2016 Projects	Budgeted	2016 Actual Spent	Difference	Blanket
8830-C18710	$0	$5,683	$5,683	Yes
8830-CNN025	$25,000	$914,660	$889,660	Yes
8830-OTH112	$0	$68,422	$68,422	No
8830-C364423	$3,700,000	$3,059,868	($640,132)	Yes
8830-C36424	$1,550,000	$1,647,572	$97,572	Yes
8830-C36435	$50,000	$57,381	$7,381	Yes
8830-C36425	$100,000	$443,824	$343,824	Yes
Total	$5,425,000	$6,197,410	$772,410	

2017 Projects	Budgeted	2017 Actual Spent	Difference	Blanket
8830-C18603	$1,300,000	$1,784,038	$484,038	Yes
8830-C36423	$300,000	$253,472	($46,528)	Yes
8830-C36424	$275,000	$467,937	$192,937	Yes
8830-C36425	$450,909	$555,143	$104,234	Yes
8830-CNN025	$50,000	$41,975	($8,025)	Yes
8830-1726	$250,000	$283,406	$33,406	No
8830-1746	$50,000	$113,750	$63,750	Yes
8830-C36435	$32,993	$39,611	$6,618	Yes
Total	$2,708,902	$3,539,332	$726,196	

2018 Projects	Budgeted	2018 Actual Spent	Difference	Blanket
8830-C36435	$400,000	$125,675	($274,325)	Yes
8830-C36431	$450,000	$462,436	$12,436	Yes
8830-1746	$0	$36,250	$36,250	Yes
	$850,000	$624,361	($225,639)	

Audit performed a review of the Company budgeted/actual costs and noted numerous instances of the project/work order estimate not being very accurate. Some of the variances by project are more than double the initial estimates, as seen above. The Company should be able to more accurately estimate the actual cost of the projects. **Audit Issue #2**

Overheads

Liberty stated there is no set rate for burden allocation. Depending on the eligible burden charges in a job, the total population to be allocated, and the amount to be allocated, will determine the amount of burden for each individual job. The burden process is based on actual charges and could fluctuate from month to month depending on the level of construction. Granite State Electric used to have 13 burden identifiers that were streamlined on October 1, 2016 to 4 burden identifiers. The reason for this was to streamline and simplify the burden calculation process for the Company. As part of the review of the plant section, Audit reviewed the Stores, Corporate, LAB, BRD.

The LU corporate overhead is a percentage of direct and indirect charges that are capitalized. The corporate overhead is the capitalization of Liberty Utilities Canada, APUC, and LABS costs based on the INDOH% that is set by corporate. The Regional, US LABS, and Liberty Corporate Services are capitalized for employees located in New Hampshire only, based on percentages set by their managers. The overhead figures are reviewed annually. The eligible cost elements for corporate overhead are labor, inventory, vouchers, and outside services.

The LAB overhead is operational expenses to capitalize the labor split, bonus accrual, payroll accrual, and field labor. This is a predetermined percentage of labor spent working on capital projects that is moved into the capital accounts monthly. The percentages are set on an employee basis determined by the manager that is reviewed annually. The charges in this burden are generally for charges that cannot be charged to other individual jobs. The eligible cost elements for corporate overhead are labor, inventory, vouchers, and outside services.

The BRD overhead consists of benefits charges that are allocated to capital jobs related to labor. This is specifically the operations expenses moved to capitalized labor that is a predetermined percentage. The BRD overhead also consists of benefits charged to direct capital labor and fleet. The fleet burden charges consist of maintenance and fuel charges that are spread proportionality based on labor dollars, and inclusion of the capitalized fleet overhead, discussed below.

The Stores overhead consists of inventory storeroom costs to be allocated with eligible materials costs during a month. The charges consist of bonus accruals and the clearing of the stores expense account 1380-1630. The purpose of the stores account is to reclassify capital costs that should have been expensed.

The Capitalized Fleet overhead represents the capitalized monthly fleet, allocated on a pro-rata basis. The capitalization is the monthly depreciation expense of grouped asset 8830-3920, multiplied by the quarterly fleet depreciation rate capitalized by CWIP job through the BRD discussed above. **Audit Issue #3**

Continuing Property Records

The Company provided Excel Spreadsheets for each work order that detail when the projects were unitized, placed into service, and taken out of Construction Work in Progress. From the Excel spreadsheets, Audit tested the transactions and the Company provided the detailed journal entries. See the review of each work order further in this report that discusses when the work orders were placed into service.

Audit reviewed the 2017 CPR additions that showed artwork booked to account #398. The artwork are pictures that hang on the wall of the Company headquarters in Londonderry. The charges are part of project 8830-CNN026 that were facilities improvement projects. The artwork is booked 30% to GSE and 70% to EnergyNorth. The artwork was purchased in 2015 but not placed into Plant in Service until May 2017. The artwork is being capitalized at an acquisition cost of $5,265 and depreciated at a 3.85% deprecation rate. **Audit Issue #4**

Audit reviewed four storm-room televisions that were booked as additions in 2018. The TV's were High Definition and 55 inches for the Salem and Lebanon storm-rooms to monitor weather events. The four televisions ranged in price from $2,206-$4,767 for a total of $13,459

Work Orders Tested

Unitized in 2017 8830-180000912 Mt. Support Leb. 16L5 Feeder $1,273,855

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll		$ 24,336	
Cost Element 2-Stores and Materials		$ 213,288	
Cost Element 4-Vouchers		$ 547,752	
Cost Element 5-Outside Services		$ 30,143	
Cost Element 6- Burden		$ 453,875	
Cost Element 7-Cost of Removal		$ -0-	
Cost Element 9-AFUDC		$ 4,462	
Total of all costs for the job:		$ 1,273,855	
Cost Element 3-Reflects the Transfer to Plant		$(1,275,567)	12/29/2017
Cost Element 3-Reflects the Transfer to Plant	$	($330)	1/25/2018
Cost Element 3-Reflects the Transfer to Plant	$	$2,042	2/13/2018
Net Wennsoft Detail		-0-	

Account 106 JE 895,282 $$1,275,567

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated December 29, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $1,275,567 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Account 106 JE 907,916 ($330)

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated January 25, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for ($330) and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Account 106 JE 918,006 $2,042

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated February 13, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $2,042 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

Audit reviewed the bidding documents for Project 8830-C36425 and associated work order 8830-180000912 that was to replace 1,500 circular feet of 477 spacer cable from pole 18 to pole 27 on State Highway 120 on the 16l5 Circuit in Lebanon. The Company received three bids and went with the lowest bidder HiVolt Construction.

Audit reviewed the Business Case for Project 8830-C36425 from September 2016. The goal of the Business Case was to construct a new 13 kV Distribution Feeder (16L5) to be fed from the Mount Support Substation. The 16L 5-feeder cable exits the Mount Support Substation via a manhole, duct system, and continue underground along the Medical Center Drive to a riser pole located on Route 120. The new 16L5 feeder will continue overhead, south along Route 120 in Lebanon where it will connect to the existing area circuits. The new distribution feeder was needed due to forecasted annual load growth of 1.8% through 2028 because of Dartmouth College, Dartmouth Medical Center, and Hypertherm. The Project was budgeted to cost $1.4 million. The Business Case was signed/approved by the Operations and Engineering Manager and the Regional Finance Director in January 2017. The Business Case authorized $50,000 to be spent on the project in 2017.

Audit reviewed an Over Expenditure Application for 2017 signed/approved in June 2017 by the Manager, Regional Finance Director, and VP of Operations. The application requested an additional $250,000 bringing the total to $300,000. The reason for the increase was due to 2016 carryover burdens and delay in the delivery of Viper Reclosers from the manufacturer. Audit reviewed an additional 2017 Over Expenditure Application that requested an additional $255,143 due to burdens and AFUDC charges due to the project remaining open and active longer than expected due to the delay of receipt of the Viper Reclosers. The Over Expenditure Application was signed/approved by the Operations Manager, Regional Leader, and Corporate SVP of Operations.

Audit reviewed the 2017 Project Closeout Report that was signed/approved by the Project Manager, Director of Engineering, and VP of Operations and Engineering in February 2018. The Closeout Report notes the project was budgeted for $450,909 and the actual amount was $555,143 with a cost overrun of ($104,234).

Payroll

Audit reviewed a $2,190 biweekly payroll report from November 2017 that was for labor installation of conductor replacement along Main St. Audit was able to verify the hourly pay multiplied by the hours worked.

Invoices

Vendor	Date	Amount
HiVolt Line	12/16	$83,900
HiVolt Line	12/16	$83,900
HiVolt Line	04/17	$83,900
HiVolt Line	05/17	$55,100
Balance Staffing	04/17	$2,899
Total		$309,699

Audit reviewed four invoices from HiVolt Line Construction for installing poles, anchors, tree wire, removing primary and secondary conductor, and overhead items. Audit reviewed one invoice for a Balance Staffing temporary employee used to help on the feeder cable job. Audit verified the invoices' hourly rates and amount of hours were calculated correctly.

Unitized in 2018 3017XX-01008 Pelham-New 14L4 Feeder $574,767

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$ 7,939	
Cost Element 2-Stores and Materials	$ 81,763	
Cost Element 4-Vouchers	$ 310,559	
Cost Element 5-Outside Services	$ 0	
Cost Element 6- Burden	$ 172,667	
Cost Element 7-Cost of Removal	$ 0	
Cost Element 9-AFUDC	$ 1,838	
Total of all costs for the job:	$ 574,767	
Cost Element 3-Reflects the Transfer to Plant	($573,001)	5/25/2018
Cost Element 3-Reflects the Transfer to Plant	($1,766)	7/18/2018
Net Wennsoft Detail	-0-	

Account 106 JE 985,702 $573,001

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated May 25, 2018 debited account # 8830-2-0000-10-1615-1060 PIS-Not Classified for $573,001 and credited account # 8830-2-0000-10-1618-1070 CWIP for the same amount.

Account 106 JE 1,016,076 $1,766

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated July 18, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $1,766 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

Audit reviewed work order 3017XX-01008 that is part of project 8830-C36431. Audit reviewed the bidding documents for the project. The purpose of the project was to replace bare conductor replacement along Main St. in Pelham. The project installed 4,500 circular feet of 477 spacer cable, installation of 1 sole owned pole, 9 anchors, 6 sets of disconnect switches, 500 feet of 477 Tree Wire on the cross-arm, remove 5 sets of disconnect switches, other miscellaneous overhead conductor work, and replace 400 feet of 3-477 Bare Conductor on the cross-arm. The Company received four bids. The Company bid selection criteria consists of work history, safety record, pricing, and performance record with Company on past jobs. The Company picked Valiant who was the lowest bidder with a bid of $225,803.

Audit reviewed a Business Case for Project 8830-C36431 that includes job 3017XX-01008 that was from October 2017. The Business Case states the project was to construct a new 13kV Distribution Feeder (14L4) to be fed from Pelham #14 substation. The 14L4 will exit the substation via a manhole and duct system and continue underground on a to a riser pole on Main St. in Pelham. The Business Case budgeted $120,000 for the project in 2017. The Business

Case was signed/approved by the Operations Manager, Director of Engineering, VP of Engineering, and Finance Director in November 2017.

The 2018 Project Closeout stated the budgeted and actual costs were both $462,436. The project closeout was signed and approved in March 2019 by the Project Manager, Director of Engineering, VP of Engineering, and VP of Finance.

Payroll

Audit reviewed a $1,878 biweekly payroll report from June 2017 that was for labor installation of conductor replacement along Main St. in Pelham. Audit was able to verify the hourly pay multiplied by the hours worked.

Materials

Audit Reviewed an Inventory Control Ticket from December 1, 2017 that was for 15,000 of spacer cable price at $1.68 per foot. Audit verified the $25,200 material expense was calculated correctly and verified the expense to the GL.

Audit Reviewed an Inventory Control Ticket from December 1, 2017 that was for 40 bracket tangent offsets that were priced at $94.84 each. Audit verified the $25,174 material expense was calculated correctly and verified the expense to the GL.

Invoices

Vendor	Date	Amount
Valiant	01/18	$144,699
Valiant	12/17	$144,699
Valiant	11/17	$114,852
		$404,250

Audit reviewed three different change order forms for Valiant Energy Services that were based on the terms of the contract. The progress payments resulted when certain tasks were completed during the performance of the contract. The description of the work was setting poles. Audit verified the hourly rates matched the rate agreement in the contract. Audit verified the charges without exception.

Unitized in 2018 301726-04001 Digger Truck Lebanon $241,756

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 241,756
Total of all costs for the job:	$ 241,756
Cost Element 3-Reflects the Transfer to Plant	($241,756) 4/25/2018

Account 106 JE 965,768 $241,756

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 25, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $241,756 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

Audit reviewed work order 301726-04001 that is part of Project 8830-1726, a blanket project to purchase vehicles that need to be replaced as part of the capital budget process. Audit reviewed the Business Case from 2017 that budgeted $250,000 to replace old vehicles. The Business Case was signed and approved by the Project Manager and Finance Director in January 2017.

Audit reviewed an Over-Expenditure Application signed and approved in December 2017 that added an additional $27,132 to the project. This brought the budgeted cost to $277,132. The reason for the cost additions was due to a 2010 Jeep Patriot that needed to be replaced due to mechanical issues. The Company provided the 2017 Project Closeout Report that was signed for $283,406. This project contains four additional work orders in addition to the work order tested. The Director of Procurement, Director of Engineering, and VP of Operations and Engineering signed the Project Closeout Report.

Invoice Review

Audit reviewed the invoice from Altec Industries for $241,756 that purchased a 2018 M-2 Model DM47B Freightliner extended cab and Dakota Body.

Unitized in 2016 8830-1524188 Install 2nd phase $795,787

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$ 13,232
Cost Element 2-Stores and Materials	$ 24,849
Cost Element 4-Vouchers	$ 499,822
Cost Element 5-Outside Services	$ 5,892
Cost Element 6- Burden	$ 193,618
Cost Element 7-Cost of Removal	$ -0-
Cost Element 9-AFUDC	$ 58,375
Total of all costs for the job:	$ 795,787
Cost Element 3-Reflects the Transfer to Plant	($795,787) 04/30/2016

Account 106 JE 542,153 $795,787

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 30, 2016 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $795,787 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Business Case and Project Documentation

This was a blanket project that started in 2014. The work order 8830-1524188 is part of Project 8830-C36435. There was no bidding documents provided by the Company. The Business Case was for 2016. The project was to address Lebanon area low voltage mitigation due to load growth and loading facilities beyond their thermal or operating capabilities. The Business Case budgeted $50,000 for 2016 for the project. The Business Case states since the inception of the project the total project cost $1,125,000. The document was signed and approved by the Project Manager and Finance Director.

Audit reviewed an Over-Expenditure Application that requested an additional $7,381 for the project. The reason for the overage was due to pole licensing and environmental permitting. The application was approved and signed in March 2016 by the Finance Director and Project Manager. The project was closed out in March 2017 and signed by the same Company representatives.

Materials

Audit reviewed an Inventory Control Sheet from October 2014 for $12,500 that was voltage regulators. Audit verified the two units were purchased multiplied by the $6,250 price per unit without exception to the GL.

Invoices

Vendor	Date	Amount
HiVolt Line	01/15	$82,889
HiVolt Line	01/15	$42,000
HiVolt Line	06/14	$41,238
HiVolt Line	01/15	$40,140
Total		$206,267

Audit reviewed 4 invoices from HiVolt Line Construction that were for installing poles, anchors, tree wire, removal of primary and secondary conductor, and overhead items.

AFUDC

Audit reviewed journal entry 442861 posted on 11/30/2015 that breaks out the December 2015 debt and equity allocation for AFUDC charges. There was $31,562 in total debt and equity listed on the journal entry for the month. The debt portion was credited to account #8830-2-0000-80-8550-4320 AFUDC-borrowed for $10,640. The equity portion was credited to account #8830-2-0000-40-4700-4191 for $20,921. Audit sampled a $5,128 AFUDC allocation. The $5,128 amount that Audit sampled is part of the CWIP balance of work orders for October 2015 that totaled $31,562 debited to account #8830-2-0000-10-1618-1070 Construction Work In Progress.

Audit reviewed a spreadsheet that showed the calculations for October 2015 totaling $31,562 debt and equity AFUDC costs. The AFUDC allocation is determined by the average September 30 and October 31 2015 plant balances multiplied by debt and equity weighted cost of capital rate. The overall Rate of Return of 7.92%, which complies with the settlement agreement in place at the time for Granite State Electric. The overall return is based on a cost of equity of 9.55% and cost of long-term debt of 5.95%. The weighted capital structure is 55% equity and 45% debt. Audit verified and recalculated the calculations were done correctly with no exception for debt and equity.

Unitized in 2017 8830-GS16000027 Salem Pole Pile (pad) Replacement $68,422

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 68,422
Total of all costs for the job:	$ 68,422
Cost Element 3-Reflects the Transfer to Plant	($68,422) 5/31/2017

Account 106 JE 771,872 $68,422

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated May 31, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $68,422 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

Audit reviewed a 2016 Capital Expenditure from August 2016 to replace an aging fleet of Salem pole piles during last week of September 2016. The old pole pile were reported to be dangerous to Company employees and placed them at serious injury risk. The form indicates $66,512 would be spent. The Capital Expenditure form was signed/approved for purchase in September 2016 by the Program Manager, Regional President, and Regional Director of Finance.

Audit reviewed the 2016 Project Closeout Report that stated the Actual Project costs were $68,422. There was a ($1,910) cost overrun compared to the $66,512 budgeted amount. The Program Manager and the Manager of Employee Health Services approved/signed the Closeout Report in March 2017. The pole pile was replaced from the Salem yard due to safety loading and unloading utility poles from the yard that are categorized by length. The new pole pile lift is lower to the ground and easier for workers to remove the utility poles.

Invoice

Audit reviewed a progress payment from December 2016 from Schroeder Construction Management performed the work. The charges on the progress payment were for testing, engineering, concrete materials for pad in yard, structural steel, demolition, insurance, reinforcement, architecture, steel, and general conditions. The total charges on the progress payment summed to $68,422.

Unitized in 2017 8830-GS16000026 AED for trucks $21,000

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 21,000
Total of all costs for the job:	$ 21,000
Cost Element 3-Reflects the Transfer to Plant	($21,000) 7/24/2017

Project Documentation

Audit reviewed a Business Case for 2016 for Project 8830-CNN026 that was a blanket project to provide miscellaneous capital improvements to GSE facilities in need of repair. The Company budgeted $100,000 for the project. The Business Case was signed/approved in April 2016 by the Operations Manager, LU Central President, and the Director of Capital Planning.

Audit reviewed the Project Closeout Report from 2016 that was signed/approved by the Program Manager, Manager of Operations and Engineering, and VP of Operations and Engineering in March 2017. The Contractor was Schroeder Construction. The Closeout Report indicates the projects budgeted/actuals amount was $22,369 with no variances.

Invoices

Audit reviewed two invoices from Heartsmart.com for the purchase of 24 Defibtech Lifeline AED Defibrillators priced at $875 per unit. The defibrillators are for the trucks in case of an emergency.

Unitized in 2017 8830-GS16000011 Ford F550 Double Truck 4X4 $146,298

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 146,298
Total of all costs for the job:	$ 146,298
Cost Element 3-Reflects the Transfer to Plant	($146,298) 7/24/2017

Account 106 JE 799,325 $146,298

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated July 24, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $146,298 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Invoice Review

Audit reviewed an invoice from December 2016 from Altec Industries for $146,298 for two 2016 Ford F550 Chassis and full installation. The remaining charges were from February 2017 to put decals on the vehicles from Vinyl, Images, and Design LLC.

Bids and Project Documentation

Audit reviewed blanket Project 8830-CNN027 to purchase vehicles over multiple years. The Business Case Audit reviewed was for Calendar Year 2016 that stated the blanket project was to replace vehicles for operations, maintenance, capital work, and emergency response activities. The project was budgeted to cost $250,000. The Business Case was signed/approved by the Electrical Engineering Manager, President LU Central, and VP of Finance in March 2016.

Audit reviewed the Project Closeout Report that was signed/approved on March 2017. The Project Closeout Report indicated the budgeted amount was $250,000 while the actual project cost was $232,760. This resulted in a cost under-spending of $17,240.

Unitized in 2017 8830-11103235 Replace RTU Liberty/National Grid joint Substations $676,436

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$ 17,966
Cost Element 4-Vouchers	$ 385,328
Cost Element 5-Outside Services	$ 27,519
Cost Element 6- Burden	$ 198,554
Cost Element 7-Cost of Removal	$ -0-
Cost Element 9-AFUDC	$ 74,068
Total of all costs for the job:	$ 676,436
Cost Element 3-Reflects the Transfer to Plant	$(676,436) 4/30/2017
Net Wennsoft Detail	-0-

Account 106 JE 752,690 $676,436

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 30, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $676,436 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

This is a blanket project that started in 2014. The work order 8830-11103235 is part of project 8830-C18710. Audit reviewed a Business Case from 2014 that stated the project was budgeted to cost $300,000. The purpose of the project was for the installation of RTUs and related equipment is required to facilitate the cutover of substation Remote Terminal Units (RTUs) from National Grid to GSE, as agreed in the separation agreement between National Grid and Liberty Utilities. The documents did not specify if National Grid was required to pay any portion of the project.

The Company did not provide the Business Cases from 2015 or 2016 as this is a blanket work order the started in 2014. The Company did not provide any bidding documents as National Grid led the joint venture. Audit reviewed the Project Closeout for 2016 only. The report states the project actually cost $5,683 for the year. This is an overage as there was no amount budgeted for the year for the project. The reason for the overage was due to carryover charges from prior years.

Invoices

Vendor	Date	Amount
TRC Comp.	08/14	$93,642
TRC Comp.	06/14	$49,051
TRC Comp.	02/14	$38,376
TRC Comp.	04/15	$11,618
Energy Initiatives	05/14	$36,330
Total		$229,017

Audit reviewed four invoices from the TRC Companies for labor for the RTU separation project. The labor performed consisted of project management, production and controls engineering, engineering, design, and drafting services. Audit verified and recalculated the hourly rates were correctly calculated.

Audit reviewed one invoice from the Energy Initiatives Group. The charges consisted of engineering, design, testing, project management, and drafting planning documents for work associated with RTU separation project. Audit verified the hourly rates were calculated correctly.

Unitized in 2018 301746-04001 First Responder Mobile App $150,000

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 150,000
Total of all costs for the job:	$ 150,000
Cost Element 3-Reflects the Transfer to Plant	($150,000) 4/25/2018

Account 106 JE 965,768 $150,000

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 25, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $150,000 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

Audit reviewed the Business Case from July 2017 for the First Responder Mobile App. The goal of the project was to replace radio and phone communication received from community first responders to report utility damage in GSE service territory. This is a smartphone app that sought to improve the flow of information for the operations division. The smartphone app takes pictures and uses GPS tracking location. The new application allows for faster response time for dispatchers and reporting of storm details.

The Business Case states the expected start date was August 15, 2017 with a 6-year license and any supporting maintenance through July 31, 2023. The Business Case stated the project was a firm fixed price contract and the project started August 25, 2017 and ended October 31, 2017. The Project Manager, Project Director, VP of Engineering, and Regional Finance Director signed the Company Capital Expenditure Application from 2016 that was signed on August 30, 2017. The Capital Expenditure indicates the projects budget was raised from $50,000 to $150,000.

Audit reviewed a Change Order that sought to charge an additional $36,250. The Change Order Form does not specify for what the additional charges are. The Staff Manager, VP of Operations, and VP of Finance approved/signed the form in March 2019. The Company did not provide a 2017 Project Closeout Report. **Audit Issue #5**

Invoices

Audit reviewed two invoices from the IRestore Company that were for $150,000 related to software licensing for the First Responders application.

Unitized in 2017 8830-9800-WEBDEV Web Redevelopment $132,158

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 132,158
Total of all costs for the job:	$ 132,158
Cost Element 3-Reflects the Transfer to Plant	($132,158) 3/31/2017

Account 106 JE 735,998 $132,158

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated March 31, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $132,158 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Audit did not receive any bid documents as the Company indicated the project was done internally. The work order is part of an IT project with Oakville that included other regions in the United States. This work order is part of several that roll up into Project 8830-CNN025. The Company for the Business Case provided a Capital Project Forecast from the Finance Division of Oakville. The capital spreadsheet was a running balance of the budgeted vs actuals for the project. The Company for the Project Closeout Report provided a Budget and Project Memo Sheet from October 2016. The document summarized the history of the project and any necessary variances that arose on the project. The budgeted cost for the project was $1,325,272 and the actual cost was $1,899,242. This is a variance of $573,970.65 that was attributed to a later go live data on the project, additional testing, and design changes with vendors about quotes/specifications.

Invoices

Audit reviewed one invoice that was from Liberty Utilities Canada for $132,158. The invoice was from Company headquarters in Oakville, Ontario, representing GSE's 10.96% allocation of $1,205,963 Company-wide Web redevelopment. The invoice did not specify for what the charges were, as the invoice was a lump sum payment. **Audit Issue #16**

Unitized in 2017 8830-9800-SPA15NH Budget and Spa Customer $229,451

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 4-Vouchers	$ 229,451
Total of all costs for the job:	$ 229,451
Cost Element 3-Reflects the Transfer to Plant	($229,451) 3/31/2017

Account 106 JE 735,998 $229,451

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated March 31, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $229,451 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Audit did not receive any bid documents, Businesses Cases, or Project Closeouts for this project as the project/work order was conducted internally. The work order is part of an IT project related to special payment arrangements (SPA) with customers to update the bill information a customer views on a bill. This is so the payment arrangement charges are presented accurately on the bill. The special payment arraignments result when customers fall behind on bills and need a payment plan to afford monthly electricity charges.

This work order is part of several that roll up into Project 8830-CNN025. Audit reviewed a budgeted and actual costs worksheet for the project that indicated the estimated cost for the project was $1,371,272 while the actual cost was $1,899,243. This is a difference of $573,971.

The reason for the overage was the result of additional IT testing that needed to be done than was initially forecasted. See work order *301746-04001 Web Redevelopment* for more information on the project.

Invoices

Audit reviewed one invoice that was from Liberty Utilities Canada for $229,451. The invoice was from Company headquarters in Oakville, Ontario. The Company provided a smart list of the charges that makeup the IT expenses. The job according to the allocation sheet charged $1,252,464 to the entire work order in US Dollars. Granite State Electric was allocated $229,451 as indicated in the invoice above. Granite State Electric was allocated 18.32% of the cost. The cost elements were allocated in Canadian dollars and converted to US dollars using a $1.03102333 exchange rate from November 2016. The cost element summary for the work order based on Canadian dollars is summarized below:

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$	436,251
Cost Element 2-Supplies, Rentals/Software/Repairs	$	57,609
Cost Element 3-Other IT Services/ QA/	$	981,168
Cost Element 5- Travel/Hotel/Food	$	135,841
Cost Element 6-Internet, Teleconference, Admin	$	22,951
Total of all costs for the job:	$	1,633,820

Audit is not able to speak about the IT Programming cost reasonableness as Audit Staff is not an IT Auditor. Audit is not able to verify what the Other IT Service charges specifically represent. Audit was not provided with the actual detailed calculations of Oakville travel, hotel, supplies, payroll, repairs, software, rentals, and administrative charges.

AFUDC

Audit reviewed journal entry 478315 that posted 1/25/2016 that breaks out the December 2015 debt and equity allocation for AFUDC charges. There was $32,428 in total debt and equity listed on the journal entry for the month. The debt portion was credited to account #8830-2-0000-80-8550-4320 AFUDC-borrowed for $10,932. The equity portion was credited to account #8830-2-0000-40-4700-4191 for $21,496. Audit sampled a $4,395 AFUDC allocation. The $4,395 amount that Audit sampled is part of the CWIP balance of work orders for December 2015 that totaled $32,428 debited to account 8830-2-0000-10-1618-1070 Construction Work In Progress.

Audit reviewed a spreadsheet that showed the calculations for December 2015 that totaled $32,428 debt and equity AFUDC costs. The AFUDC allocation is determined by the average November 30 and December 31 2015 plant balances multiplied by debt and equity weighted cost of capital rate. The overall Rate of Return of 7.92% complies with the settlement agreement in place at the time for Granite State Electric. The overall return is based on a cost of equity of 9.55% and cost of long-term debt of 5.95%. The weighted capital structure is 55% equity and 45% debt. Audit verified and recalculated the calculations were done correctly with no exception for debt and equity.

Unitized in 2018 8830-18002934 Reconductoring 12 RT 123 Walpole $1,636,887

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$ 51,543	
Cost Element 2-Stores and Materials	$ 75,570	
Cost Element 4-Vouchers	$ 1,079,521	
Cost Element 6- Burden	$ 430,153	
Cost Element 7-Cost of Removal	$ -0-	
Cost Element 9-AFUDC	$ 11,653	
Total of all costs for the job:	$ 1,636,887	
Cost Element 3-Reflects the Transfer to Plant	$(1,632,155)	4/25/2018
Cost Element 3-Reflects the Transfer to Plant	$(345)	7/27/2018
Cost Element 3-Reflects the Transfer to Plant	$(4,273)	4/27/2018
Cost Element 3-Reflects the Transfer to Plant	$(114)	8/22/2018
Net Wennsoft Detail	-0-	

Account 106 JE 965,768 $1,632,155

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 25, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $1,632,155 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Account 106 JE 967,294 $4,273

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 27, 2018 debited account #8830-2-0000-10-1618-1070 CWIP for $4,273 and credited account #8830-2-0000-10-1615-1060 PIS-Not Classified for the same amount.

Account 106 JE 103,4864 ($114)

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated August 22, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for ($114) and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Account 106 JE 967,294 $4,273

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated April 27, 2018 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $4,273 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

Audit reviewed the bidding documents for the work order. The Request for Proposal sent by the Company stated the work to be performed was an overhead line reconstruction job to replace approximately 3 miles of 477 spacer cable along Route 123 in Walpole. The list of bids to be considered complete was required to include a description of the services provided, completed pricing data with applicable hourly rates, references, any assumptions/clarifications, and any possible exceptions. The Company received three bids and selected JCR Construction.

The Company was not the lowest bidder on the project. The bid amounts were close. The deciding factor was the track record of working with the Company on other projects.

Audit reviewed the Business Case for work order 8830-180002934 that is part of project 8830-C18603. The Project was estimated to cost $1,625,000 to be completed during calendar 2017. The estimate included a capital budget cost of $1.3 million and a $325 over (under) cost overrun compared to the budgeted amount. The goal of the project was to replace bare conductors with tree resistant wires in areas that are prone to tree contact. The project sought to improve and resolve reliability performance. The project was requested by the Company Electric Manger and signed off in March 2017 by the East Region President and four other Vice Presidents.

Audit reviewed an Over-Expenditure Application from August 2017 that increased the cost of the project from $1,625,000 to $1,784,038. The reason for the increase was that the actual burdens were greater than initially estimated. The actual charges for traffic control, tree trimming, and waste removal were greater than initial estimates. The application was approved in February 2018 and signed by the Electric Manger, Regional Leader, and Senior Corporate Vice President.

The Project Closeout states that $1.3 million in capital was requested. The Project Manager, Director of Engineering, and VP of Engineering, signed the project closeout in February 2018. The financial section of the Project Closeout states the budgeted amount was $1.3 million and $484,038 in costs higher than initially estimated. The final cost of the project was $1,784,038. The reason for the overages are described in the paragraph above.

Payroll

Audit reviewed a $1,952 bi-weekly payroll report from November 2017 that was for labor installation on the substation of spacer cable. Audit was able to verify the hourly pay multiplied by the hours worked.

Materials

Audit reviewed an Inventory Control Material Requisition Ticket from October 2017 for $21,168 that was for electrical spacer cable used for the job in Walpole. Audit verified the 12,600 feet of cable multiplied by the $1.68 unit cost was calculated correctly without exception and verified to the GL.

Audit reviewed an Inventory Control Material Requisition Ticket from October 2017 for $13,860 that was for electrical spacer cable used for the job in Walpole. Audit verified the 8,250 feet of cable multiplied by the $1.68 unit cost was calculated correctly without exception and verified to the GL.

Invoices

Vendor	Date	Amount
JCR Const.	02/18	$332,400
JCR Const.	10/17	$249,300
JCR Const.	01/18	$165,000
Total		$746,700

Audit reviewed 3 invoices form JCR Construction that were for reconductoring work performed along Route 123 in Walpole replacing spacer cable.

Customer Line Extension

Audit reviewed JE 721,670 that debited the CWIP account #8830-2-0000-10-1618-1070 for $11,554 and credited account #8830-2-0000-1101-1421 Customer AR-Misc. Billing for the same amount. Audit reviewed the loan detail from GSE that was signed on 3/2/2017 by the customer. The loan agreement indicates the customer borrowed $11,554.37 at 3.5% interest to be paid back within five years. The monthly payment is $210.19. The interest rate was the rate charged to customer deposits on the PUC website. The loan was for a line extension in Plainfield for 1,100 feet of overhead and underground cost of the line extension. The Company indicated the line extension complied with the Residential Developments Line Extension Tariff policy that was in place at the time. The Original Page 59 of the tariff, approved by Order #26,005 in DE 16-383 was put into effect May 1, 2017. The current tariff First Revised Page 59 was issued August 6, 2018 and became effective January 1, 2019, per Order #26,161 DE 17-149.

Unitized in 2017 8830-17344404 16L3 and 16L5 Manhole and Duct $1,017,216

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$ 11,036	
Cost Element 2-Stores and Materials	$ 262,717	
Cost Element 4-Vouchers	$ 460,870	
Cost Element 5-Outside Contractors	$ 6,045	
Cost Element 6- Burden	$ 257,859	
Cost Element 7-Cost of Removal	$ -0-	
Cost Element 9-AFUDC	$ 18,718	
Total of all costs for the job:	$ 1,017,246	
Cost Element 3-Reflects the Transfer to Plant	$(1,017,216)	12/29/2017
Net Wennsoft Detail	-0-	

Account 106 JE 895,282 $1,017,216

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated December 29, 2017 debited account # 8830-2-0000-10-1615-1060 PIS-Not Classified for $1,017,216 and credited account # 8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

The Company sent bids out to six Companies. The bidding documents indicate the RFP applied to work orders 8830-25000019 and 8830-17344404. The Company received two bids with similar pricing. The Company chose Mirra at $632,300.

There was a 2016 Business Case for work order 8830-17344404 and the associated Project 8830-C36424. The project goal is to install substation equipment and facilities at the Mount Support Substation in Lebanon to expand the 13kV bus in order to accommodate two new Low Profile Distribution Feeders 16L3 and 16L5. The Business Case was signed/approved by the Operations Manager, Regional Finance Director, and Regional VP.

This project was a blanket order that took place in 2016 and 2017. Audit reviewed an Over-Expenditure Application for 2017 that stated the original budgeted amount for the project was $300,000 and the project was being increased to $467,937. The reason for the overrun was because of burdens and AFUDC charges that were greater than estimated due to the project remaining open and active longer than expected due to delay of shipment of Viper Reclosers. The goal of the project was to construct a new 13kV Distribution Feeder (16L3) to be fed from the Mount Support Substation. The application was signed and approved in February 2018 by the Project Manager, Director, and VP of Engineering.

Audit reviewed the Project Closeout Report for 2017 that was signed and approved in February 2018. The budgeted amount was $275,000 and the actual project cost was $467,937 for an overrun of ($192,937) that was due to the same reasons described in the 2017 Over-Expenditure application.

Payroll

Audit reviewed a $1,194 biweekly payroll report from April 2016 that was for labor installation on the substation. Audit was able to verify the hourly pay multiplied by the hours worked.

Materials

Audit reviewed an Inventory Control Sheet from December 2014 for $31,248 that was electrical spacer cable used for the job in Lebanon. Audit verified the 16,800 feet of cable multiplied by the $1.86 unit cost was calculated correctly and verified to the GL.

Audit reviewed an Inventory Control Sheet from December 2014 for $46,824 that was electrical spacer cable used for the job in Lebanon. Audit verified the 25,174 feet of cable multiplied by the $1.86 unit cost was calculated correctly and verified to the GL.

Audit reviewed an Inventory Control sheet from April 2016 that was for $28,500 that was for a manhole-precast cover to be used in the job. There was only one unit according to the inventory record and verified to the GL.

Invoices

Vendor	Date	Amount
Mirra	06/16	$180,383
Mirra	09/16	$161,035
Eleccom	12/16	$111,699
Marmon	12/14	$46,824
Marmon	12/14	$31,248
Shea Concrete Prod.	04/16	$28,500
Total		$559,689

Audit reviewed six invoices that summed to $559,689. Audit reviewed two invoices form Mirra Co. Inc., the winning bidder for the project for the Mt. Support Sub Feeder to the Medical Center Dr. in Lebanon. The project goal is to install substation equipment and facilities at the Mount Support Substation in Lebanon to expand the 13kV bus in order to accommodate two new Low Profile Distribution Feeders 16L3 and 16L5. The work performed was labor and materials for installed manholes, conduits installed, testing, restoration, flow fill of displaced soils, ledge removal, and soil removal. Audit verified the hourly rates and subcontractor invoices were calculated correctly. The invoices were verified to the rate sheet without exception.

Audit reviewed one invoice from EleComm Corporation that was for installation of 16L3 and 16L5 feeder cable and testing to verify the installation was correct. Audit reviewed two invoices from Marmon Utility that was for 477 spacer cable. Audit reviewed one invoice from Shea Concrete Products that was for a manhole precast 4way distributor.

AFUDC

Audit reviewed journal entry 655062 that posted 11/10/2016 that breaks out the September 2016 debt and equity allocation for AFUDC charges. There was $10,966 in total debt and equity listed on the journal entry for the month. The debt portion was credited to account 8830-2-0000-80-8550-4320 AFUDC-borrowed for $3,697. The equity portion was credited to account 8830-2-0000-40-4700-4191 for $7,269. Audit sampled a $4,395 AFUDC allocation. The $4,395 amount that Audit sampled is part of the CWIP balance of work orders for October 2016 that totaled $10,966 debited to account 8830-2-0000-10-1618-1070 Construction Work In Progress.

Audit reviewed a spreadsheet that showed the calculations for October 2016 that totaled $10,966 debt and equity AFUDC costs. The AFUDC allocation is determined by the average September 2016 plant balances multiplied by debt and equity weighted cost of capital rate. The overall Rate of Return of 7.92% complies with the settlement agreement in place at the time for Granite State Electric. The overall return is based on a cost of equity of 9.55% and cost of long-term debt of 5.95%. The weighted capital structure is 55% equity and 45% debt. Audit verified and recalculated the calculations were done correctly with no exception for debt and equity.

Unitized in 2017 8830-25000019 Substation Design $3,729,263

Audit was provided with the Wennsoft asset system summary of expenses:

Cost Element 1-Payroll	$ 160,336	
Cost Element 2-Stores and Materials	$ 100,221	
Cost Element 4-Vouchers	$1,962,139	
Cost Element 5-Outside Contractors	$ 404,494	
Cost Element 6- Burden	$1,073,074	
Cost Element 7-Cost of Removal	$ -0-	
Cost Element 9-AFUDC	$ 29,000	
Total of all costs for the job:	$ 3,729,263	
Cost Element 3-Reflects the Transfer to Plant	$(3,729,263)	11/29/2017
Net Wennsoft Detail	-0-	

Account 106 JE 877,108 $3,729,263

Audit reviewed the journal entry that moved the work order from the CWIP 107 account to the 106 Plant in Service-Not Classified Account. The journal entry dated November 29, 2017 debited account #8830-2-0000-10-1615-1060 PIS-Not Classified for $3,729,263 and credited account #8830-2-0000-10-1618-1070 CWIP for the same amount.

Bids and Project Documentation

The Company sent bids out to six Companies. The bidding documents indicate the RFP applied to work orders 8830-25000019 and 8830-17344404. The Company received three bids with similar pricing. The Company chose the lowest bidder, Matrix, with a $2,725,000 bid offer.

There was a 2016 Business Case for work order 8830-25000019 and the associated Project 8830-C36423. The project goal is to install substation equipment and facilities at the Mount Support Substation in Lebanon to expand the 13kV bus in order to accommodate two new Low Profile Distribution Feeders 16L3 and 16L5. The Business Case was signed/approved by the Operations Manager, Regional Finance Director, and Regional VP. The project was budgeted to cost $3.6 million for the entire blanket project. The project budgeted $300,000 to be spent in 2017.

Audit reviewed a 2017 Project Closeout Report that was signed and approved in February 2018 by the Project Manager, Director of Engineering, and VP of Engineering. The closeout report indicated the budgeted amount was $300k and actual amount spent was $253,472 for a $46,528 cost underrun.

Payroll

Audit reviewed a $5,698 biweekly payroll report from September 2016 that was for labor installation on the substation. Audit was able to verify the hourly pay multiplied by the hours worked.

Materials

Audit reviewed an Inventory Control Sheet from December 2016 for $91,530 that was for voltage regulators used for the job in Walpole. Audit verified the six units multiplied by the $15,255 unit cost was calculated correctly and verified to the GL.

Invoices

Vendor	Date	Amount
Black and Veatch	11/16	$45,780
Matrix	07/16	$347,173
Matrix	11/16	$293,320
Matrix	09/16	$277,340
Matrix	07/16	$186,785
Matrix	12/16	$172,842
Matrix	03/17	$77,898
United Power	11/16	$43,150
Energy Initiatives Group	11/15	$8,704
Total		$1,452,992

Audit reviewed nine invoices for the feeder cable project. The work performed by the Energy Initiatives Group consisted of Mount Support outage planning for the 13kV bus and to manage any offloading disruptions on the new feeder cable. The planning work was Visio models and planning for Liberty officials in the Lebanon office.

Audit reviewed six invoices from Matrix North American Construction. They were the winning contractor for the project. The work consisted of the Mount Support Substation upgrades to expand the 13kV bus in order to accommodate two new Low Profile Distribution Feeders 16L3 and 16L5. The invoices' charges consisted of labor and materials to install a temporary fencing, excavation, pavement, cable trenching, yard wiring and termination, duct work, ground wells, control house, voltage regulators, testing, receiving and storing materials, on site safety, project management, snow removal, security, environmental controls, 13.8 kV insulators, 15kV removals and rigid bus. Audit verified the labor rates to the term of the contract rate agreement.

Audit reviewed once invoice from United Power that was for testing and commissioning services at the Mt. Support Substation in Lebanon. The charts were recalculated without exception.

AFUDC

Audit reviewed journal entry 642419 that posted 10/19/2016 that breaks out the September 2016 debt and equity allocation for AFUDC charges. There was $23,359 in total debt and equity listed on the journal entry for the month. The debt portion was credited to account #8830-2-0000-80-8550-4320 AFUDC-borrowed for $7,875. The equity portion was credited to account #8830-2-0000-40-4700-4191 for $15,484. Audit sampled a $13,402 AFUDC allocation. The $13,402 amount that Audit sampled is part of the CWIP balance of work orders for September 2016 that totaled $23,359 debited to account 8830-2-0000-10-1618-1070 Construction Work In Progress.

Audit reviewed a spreadsheet that showed the calculations for September 2016 that totaled $23,359 debt and equity AFUDC costs. The AFUDC allocation is determined by the average August 31 and September 30 2016 plant balances multiplied by debt and equity weighted cost of capital rate. The overall Rate of Return of 7.92%, which complies with the settlement agreement in place at the time for Granite State Electric. The overall return is based on a cost of equity of 9.55% and cost of long-term debt of 5.95%. The weighted capital structure is 55% equity and 45% debt. Audit verified and recalculated the calculations were done correctly with no exception for debt and equity.

Intangible Asset-Software upgrade

Audit requested clarification of the cost regarding a Cogsdale upgrade made in accordance with docket DE 18-057. Order #26,132 in that docket, issued on May 4, 2018, authorized the Electric Assistance Program (EAP) discount to be applied to the energy service portion of low-income customers' bills, even if the customer chooses a competitive energy supplier rather than default service. Page 4 of the Order includes: "*The Board recognized that the Utilities will incur information technology (IT) costs adjusting their billing systems to enable this change. Eversource and Liberty estimated an IT cost of $180,000 and $182,000 respectively; Unitil and NHEC estimated an IT cost of $25,000 and $20,000 respectively*." Liberty indicated that the upgrade total was $195,666.32, booked to FERC 8830-3030 through job #301873-04001. On 05/16/2019, Liberty and Eversource petitioned the Commission, via DE 18-057, to recover the costs of the IT. The Order authorizing the implementation also authorized the recovery of the cost through the system benefits charge (SBC). The Company provided the following regarding the variance of the estimate to the actual:

Expense	Actual	Estimate	Variance
Vendor Costs	$133,665	$133,898	$ (233)
Labor-Corporate	$ 35,260	$ 26,265	$ 8,995
Labor-NH	$ 6,515	$ 17,000	$(10,485)
Contingency	$ -	$ 5,140	$ (5,140)
Burdens	$ 18,282	$ -	$ 18,282
AFUDC	$ 1,944	$ -	$ 1,944
	$195,666	$182,303	$ 13,363

$168,498.10 debited to the Construction Work in Progress account 8830-2-0000-10-1618-1070 from June 2018 through December 2018 was credited to that account on December 31, 2018 and debited to account 8830-2-0000-10-1615-1060, Plant in Service not Classified. The work performed on the IT upgrade, to be reimbursed through the SBC, should have posted to the SBC deferral account 8830-2-0000-20-2142-2542. **Audit Issue #6**

Vendor Costs were verified to invoices from Cogsdale, for the "*addition of discount functionality for 3rd party marketers for EAP customers with TOU incorporating EMR changes on QUO-5517 (QUO-5509)"*, and a line item on a spreadsheet relating to FiServe. Ongoing Data Requests in docket DE 18-057 require additional support for the reported Labor-Corporate and Labor-New Hampshire figures, as well as the detailed IT quote and change orders from both Cogsdale and FiServe. Recovery of approved expenses will be reviewed as part of the annual Low Income Electric Assistance Program audit of fiscal year ending 9/30/2020. Commission approval of the amount to be recovered from the SBC will be determined in DE 18-057.

<u>Cost of Removal</u>

The Company provided the Cost of Removal entries for the work orders tested in this audit report. The Company debited the Accumulated Depreciation account #8830-2-0000-10-1655-10801 and credited Accrued Cost of Removal #8830-2-0000-20-2124-2420 for the same amount. **Audit Issue #7**

Work Order	Job Name	Amount
8830-15254188	Install 2nd phase	$53,616
8830-18002934	Recon. Walpole	$3,489
8830-25000019	Subs. Design	$28,647
Total		$85,753

<u>DE 16-383 Step Adjustment Audit Report</u>

On January 10, 2019, the Final Audit Report was issued for the Pelham Substation and installation of Getaway Cables. The Audit Report indicated the Company was authorized to collect $2.4 million associated with the plant investment. This was $2 million for the Pelham Substation and $400,000 for the Pelham 14L4 Feeder. On Page 17 of the Audit Report, the unitized Plant in Service is $4,910,976 for both the Substation and feeder cable as of July 2018.

The testimony of Heather Tebbetts on Page 5 of testimony, filed in April 2019, indicates the final unitized amount for the substation and getaway cable was $5,014,490. This is different from the total on the Final Audit Report due to additional months of costs and associated cost of removal charges, as the work order was not closed at the conclusion of the audit. The Company is seeking to recover the additional plant investment costs above the $2.4 million in the current rate case.

<u>Retirement Process</u>

The process of retiring an asset in the fixed asset system is done in the retirement module of Great Plains. This module requires the job to which the asset was initially booked, the retirement date, and the quantity to be retired. There is also an option to retire a percentage or dollar amount but the quantity is generally the method used. The fixed asset system does not provide a mechanism to include the job the asset is being replaced on which eliminates the ability to track a retired asset to a job.

Audit asked the Company various ways how retirement information is provided to plant. This is done three main ways. The Substation Engineers or Facilities Division will request a run-off from the asset system when they are removing equipment from a specific substation. They will highlight what is being removed and send information back to the Plant Accountant to retire the assets in the fixed asset system. The final way is through Operations. The Company maintains an “As-built” application on the internal network drive that tracks what is to be retired during each quarter. At the end of each quarter, the As-built list is retired from the fixed asset system. The Company retires assets in mass using FIFO. The retirement list includes town, retirement unit, and quantity to be retired. For some older jobs, if there has been no retirement information included in the As-built application but the job identifies materials being retired, the Plant Accountant will retire like for like what is being installed.

The Company fixed asset work order system does not track retirements by the same work order addition work order number assigned. The Company conducts retirements on a quarterly basis. Audit sampled a spreadsheet from Quarter 3 2019 that showed the retirements on the GL. The Company, in the retirement's spreadsheet, books the retirement entries correctly by debiting account #108 Accumulated Depreciation and crediting the plant asset account. The Company retired ($3,193,307) in plant assets for 2016-2018 based on $54,167,222 in additions booked done over the same period.

Accumulated Depreciation and Amortization

The filing schedules RR-2-1 lines 26, 27, and 28 and RR-4, line 3 reflect Accumulated Depreciation and Amortization that agrees with the FERC Form 1 balance of $(93,623,954).

Audit verified the reported information to the following general ledger accounts:

8830-2-0000-10-1655-1080 Accum Prov for Depn of Elect Utility Plant	$(96,399,847)
8830-2-0000-10-1655-1081 RWIP Reclass	$ -0-
8830-2-0000-10-1655-1082 RWIP Salvage	$ (66,137)
8830-2-0000-10-1655-1084 Accum Dep Cost of Removal	$ 10,144,432
8830-2-0000-10-1655-1087 Excess Accum Depreciation	$ -0-
8830-0-0000-20-2910-1823 Excess Depreciation Greater than 1year	$ -0-
8830-2-0000-10-1655-1100 Accum Prov for Amort of Elect Utility Plant	$ -0-
8830-2-0000-10-1655-1110 Accum Prov for Depn of Elect Utility Plant	$ (422,531)
8830-2-0000-10-1655-1220 Accum Dep Non-utility Property	$ -0-
8830-2-0000-20-2124-2420 Accrued Cost of Removal	$ (6,879,871)
	$(93,623,954)

The Company books the Cost of Removal using FERC account #242 Miscellaneous Current and Accrued Liabilities as seen in the 8830-2-0000-20-2124-2420 Accrued Cost of Removal account, rather than the correct FERC account #108 Accumulated Depreciation. **Audit Issue #9**

The CPR records indicated the December 31, 2018 Accumulated Depreciation summed to $100,481,746 while the Accumulated Depreciation per the Filing and GL summed to $93,623,954. This is a $6,857,792 difference. This is a result of the 108 cost of removal accounts and a $3,533,430 deprecation setup entry from July 2014. The Company was authorized to amortize $706,686 per year for five years of the excess deprecation. Audit reviewed the July 31, 2014 journal entry that debited account 8830-2-0000-10-1655-1080 Accum. Prov for $3,533,430 and credited accounts 8830-2-0000-10-1930-1823 Other Regulatory Asset-Deferred Rate Case for $2,826,744 and 8830-2-0000-20-2142-1823 Excess Deprecation less than one year for $706,686. The Company Plant Accountant indicated there were additional ($125,938) in reconciling adjusting entries for excess software amortization from 2013 and excess CIAC adjustments.

The correct FERC account #108 Accumulated Depreciation states: "*at the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. When retirement cost of removal and salvage* *are entered originally in retirement work orders, the net total of such work orders may be included in a separate subaccount hereunder…*"

FERC account #242 states: "*This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability. Items "nonmajor only) 1. Dividends declared but not paid 2. Matured-Long Term Debt 3. Matured interest 4. Taxes collected through payroll deductions or otherwise pending transmittal to the proper taxing authority*. **Audit Issue #7**

Depreciation and Amortization Expense

Depreciation Expense, Amortization of Intangibles, and Amortization of Regulatory Debits were combined within the filing on schedule RR-2 line 14 for a total of $8,684,070.

8830-2-0000-80-8610-4030 Depreciation Expense	$6,167,294	FERC Form 1 page 114 line 6
8830-2-0000-80-8610-4050 Amortization-Intangible	$2,156,872	FERC Form 1 page 114 line 8
8830-2-0000-80-8640-4073 Amort. Reg. Debits	$ 359,904	FERC Form 1 page 114 line 12
Reported Deprec. and Amort. Expense Total 2018	$8,684,070	

Both the Depreciation expense and the Amortization of Intangibles expense are offset to the Accumulated Provision for Depreciation of Electric Utility Plant account 8830-2-0000-10-1655-1080. The Regulatory Debit amortization was offset to:

8830-2-0000-10-1168-1821 Current Reg Asset-Special Audit	$ (45,045)
8830-2-0000-10-1930-1823 Other Reg Asset-Deferred Rate Case	$(314,859)
	$(359,904)

The full $359,904 Amortization of Regulatory Debits is included on Filing Schedule RR-2-1. The expenses associated with the $(314,859) relate to the 2016 rate case expenses, and should be considered <u>non-recurring</u>. **Audit Issue #13**

Audit reviewed and tested individual plant in service depreciation transactions in the CPR to the most recent approved deprecation Study in DE 13-063. Audit was able to verify the 2018 Depreciation Expense totals on the CPR records to the GL and filing schedules that summed to $8,684,070. The CPR records indicated the December 31, 2018 Accumulated Depreciation summed to $100,481,746 while the Accumulated Depreciation per the Filing and GL summed to $93,623,954. This is a $6,857,792 difference

Audit reviewed Filing Schedule RR-3-08 filed April 30, 2019 that is an adjustment to Depreciation and Amortization rates. On the filing schedule the Company included account #372 Leased Property on Customer Premises that they should not have, as these deprecation costs relate to the Hot Water Tank Rental Program the Company sold in October 2018. The Filing Schedule RR-3-08 states the December 31, 2018 historic year balance is $1,207,584 with a $120,758 Proformed Deprecation Expense. The Company, on November 22, 2019, filed an updated Filing Schedule RR-3-08 with the Commission removing the water heater assets from 2018 test year Plant In Service and Deprecation Expense. The Company on November 22, 2019 also filed an updated Filing Schedule RR-3-16 that removed the revenue and expenses associated with the water heater assets. The Company removed from the 2018 test year $11,712 in revenue and $73,923 in operating expenses respectively on lines 7 and 9 of the filing.

The Company also included Land and Land rights on the Filing Schedule RR-3-08. The land accounts are account numbers 360 and 389. On Column O, the Proformed Depreciation Expense, that Company correctly did not include any deprecation on the land, as there is no depreciation expense associated with land.

Construction Work in Progress (CWIP)

Audit requested a listing of all projects that total the filing amount of $3,907,980, found on RR-4 line 5, as well as information including location, starting date, estimated finish date and amount expended to 12/31/2018. Audit verified the FERC Form 1 figure of $3,907,980 to general ledger account 8830-2-0000-10-1618-1070 without exception.

Allowance for Funds Used During Construction (AFUDC)

Audit verified the AFUDC to:

8830-2-0000-40-4700-4191 AFUDC Equity	$(63,639) FERC pg 117 line 38
8830-2-0000-80-8550-4320 AFUDC Borrowed	$(39,621) FERC pg 117 line 69

Activity within both accounts was offset to the Construction Work in Process account 8830-2-0000-10-1618-1070. See review of individual work order in the Plant selections above for review of individual AFUDC detail.

The Company indicated within Staff Data Response 13-10 dated 4/3/2019 on the Pelham Substation, that the AFUDC equity rate was incorrectly applied. Based on a Company review, starting May 1, 2017 the Company used a weighted AFUDC equity rate of 4.75% when it should have been 4.70%. The Company stated the error was $784.06 and did not have an impact on the step adjustment recovery as it was capped at $2.4 million. Audit asked the Company if there was any true-up calculation done for the 2018 filing schedule. The Company provided a reconciliation of the AFUDC for the Pelham work orders only. Audit tested AFUDC for charges prior to May 1, 2017 and those were calculated correctly. **Audit Issue #8**

CURRENT and Other ASSETS $72,141,378

Current Assets, per the Filing Schedule RR-4 $43,406,034, are comprised of the following:

Cash	$ 87,514
Accounts receivable	$12,530,433
Due from affiliates	$25,009,833
Materials and supplies	$ 1,877,163
Prepayments	$ 1,081,231
Accrued Revenues and Other	$ 2,819,860
Current Assets	$43,406,034

Other Current Assets, per the Filing Schedule RR-4 $28,735,344, are comprised of the following:

ADIT-Debits	$ 328,131
Deferred Assets-Pension/OPEB	$11,953,050
Deferred Assets-Storm	$ 5,534,016
Other Assets	$10,920,148
Other Assets	$28,753,344
Total Current Assets	$72,141,378

Cash - $87,514

Audit verified the filing cash reported on schedule RR-4, Balance Sheets, to the following general ledger accounts:

8830-2-0000-10-1020-1310 Cash-JP Morgan	$61,175
8830-2-0000-10-1060-1340 Other Special Deposits	$26,339
Cash per the General Ledger	$87,514

Audit verified the general ledger cash totals to the FERC Form 1, page 110, to lines 35 and 36 respectively. The BlackRock mutual fund is noted in the Other Special Deposits account above.

Audit reviewed the December 31, 2018 JP Morgan Chase bank statement and related general ledger account reconciliation. There were no exceptions noted. Activity within the month per the bank reflected:

	Per Bank Statement	Per the General Ledger
Beginning Balance	$ 14,526.05	$ 12,435.34
Deposits and additions	$732,923.63	$788,411.06
Withdrawals	($739,671.51)	($739,671.51)
Adjustments	$ -0-	($ 53,396.72)
Ending Balance	$ 7,778.17	$ 7,778.17

A notation on the reconciliation indicates that the 1310 general ledger account is used primarily to record receivables from customers for Granite State Electric.

Per the Company, the BlackRock account complies with the ISO-NE financial assurance requirement in the Open Access Transmission Tariff. Audit reviewed the statement and reconciliation without exception. Both accurately reflect the general ledger balance noted above.

Interest earned on the BlackRock account is reinvested, with the debit noted in the 1340 account and the credits posted to 8830-2-0000-40-4420-4190, Interest Income. The reinvested income was noted on the December 31, 2018 BlackRock statement. The total for the year is $26,339.

Audit reviewed the current irrevocable standby letter of credit, in the amount of $5,800,000, which expires on 6/24/2019. The letter was issued by JP Morgan Chase on behalf of Liberty Utilities (Granite State Electric) Corp. in favor of ISO New England, Inc. The standby letter of credit is a contingent liability, thus not reflected on the general ledger of GSE.

$4,500,000 LC	Issued on November 17, 2015 with expiration date of September 10, 2016
Amendment no 1:	LC decrease by $500,000, new LC amount $ 4,000,000
Amendment no 2:	LC increase by $1,000,000, new LC amount $ 5,000,000
Amendment no 3:	Extended to September 28, 2017
Amendment no 4:	LC increase by $400,000, new LC amount $5,400,000; LC extended to Aug 9, 2018
Amendment no 5:	LC increase by $400,000, new LC amount $5,800,000; LC extended to June 24, 2019
Amendment no 6:	Extended to March 30, 2020

The reported FERC Form 1 Cash and Other Special Deposit balances since the prior rate case reflect:

	2016	2017	2018
Cash	$14,641	$41,970	$61,175
BlackRock	$25,570	$25,850	$26,339

Accounts Receivable $12,530,433

The filing schedule RR-4 reflects the above receivable figure. Audit verified the total to the following general ledger accounts:

8830-2-0000-10-1101-1420 Customer Accounts Receivable	$12,634,538
8830-2-0000-10-1101-1421 Customer AR-Misc. Billing	$ 714,250
8830-2-0000-10-1102-1443 Reserve for Bad Debt Accrual	$ (818,355)
	$12,530,433

Audit noted that the first two accounts were part of an overall Customer Accounts Receivable figure of $13,051,794 on the FERC Form 1 page 110 line 40. That figure includes the balance of account 8830-2-0000-20-2111-2420, Unapplied Payments, $(296,994). Refer to the Other Accrued Liabilities section of this report for further information.

The Reserve for Bad Debt was verified to the FERC Form 1 page 110 line 42. Refer to the Revenue and Expense sections of this report for additional details.

Due from Affiliates $25,009,833

Audit verified the total on the filing schedule RR-4 to the following general ledger accounts:

8830-2-0000-10-1121-1460	AR Associated Company	$	5,942.05
8830-2-0000-20-2810-2635	Due to COGSDALE	$	24,499,394.88
8830-2-0000-20-2810-2639	Due from Liberty Utilities (Central) Services Corp	$	238,886.44
8830-2-0000-20-2810-2079	Due to Liberty Liberty Utilities Canada	$	249,582.35
8830-2-0000-10-1936-1000	Deferred Financing - Intercompany	$	16,026.92
		$	25,009,832.64

Due from Affiliates should reflect only those 146 accounts. **Audit Issue #9**

Materials and Supplies $1,877,163

The total per the filing schedule RR-4 agrees with the general ledger account 8830-2-0000-10-1380-1540 and the FERC Form 1 page 110 line 48.

The reported FERC Form 1 balance since the prior rate case (test year ended 12/2015) reflects:

2015	2016	2017	2018
$1,605,519	$1,875,160	$2,242,637	$1,877,163

A review of specific Inventory items was done as part of the Plant section of this report.

Prepayments $1,081,231

The filing schedule RR-4 reflects the total prepayments figure of $1,188,847. Audit verified the total to two general ledger accounts:

8830-2-0000-10-1240-1650 Prepaids	$ 12,804
8830-2-0000-10-1240-1653 Prepaid Taxes-Mun-Property-Oper	$1,068,427
	$1,081,231

The total was verified to the FERC Form 1 page 111 line 57. Refer to the Expense portion and Property Tax portion of this report for additional information.

Accrued Revenues and Other $2,819,860

Audit verified the filing schedule RR-4 total to:

8830-2-0000-10-1101-1423	A/R Undr Collect-Default/LR Sv	$	-
8830-2-0000-10-1101-1429	A/R REC Obligation	$	917,647
8830-2-0000-10-1160-1438	Other Accounts Receivable Grants	$	118,554
8830-2-0000-10-1160-1439	Other Accounts Receivable - Special Contracts	$	-
8830-2-0000-10-1162-1730	Accrued Utility Revenue	$	1,773,168
8830-2-0000-10-1163-1430	Income Tax Receivable	$	(11,493)
8830-2-0000-10-1168-1420	Phased in revenue	$	-
8830-2-0000-10-1168-1820	Current Regulatory Asset	$	6,970
8830-2-0000-10-1168-1821	Current Regulatory Asset - Special Audit	$	15,015
		$	2,819,860

Audit verified the $1,773,168 Accrued Utility Revenue to the December 2018 unbilled revenue calculation. Audit also requested the unbilled revenue calculation for January 2019. Refer to the Revenue section of this report for additional information.

ADIT-Debits $328,131

The filing schedule RR-4 reflects the above total, which was verified to the general ledger account 8830-2-0000-10-1930-2830. Refer to the Tax portion of this report for further information. **Audit Issue #9**

Deferred Assets-Pension/OPEB $11,953,050

The filing schedule RR-4 Deferred Pension/OPEB figure was verified to two general ledger accounts:

8830-2-0000-10-1168-1825 Current Regulatory Asset-Pension	$ 2,056,720
8830-2-0000-10-1930-1826 FASB 158-Pension	$ 9,896,330
	$11,953,050

It is understood that questions and response relating to the Pension and OPEB were part of the discovery process in this docket.

Deferred Assets-Storm $5,534,016

The filing schedule RR-4 total was verified to the general ledger account 8830-2-0000-10-1930-1825, Storm Costs. This account is part of an annual rate review and audit, and was not reviewed as part of this rate case audit. The 2018 Storm Cost audit report in docket DE 06-107 was issued on November 20, 2019.

Other Assets $10,920,148

The filing schedule RR-4 represents Other Assets in the amount of $10,920,148. Audit verified the total to the following general ledger accounts:

8830-2-0000-10-1168-1827	Vegetation Management provision/ REP-current	$	690,322
8830-2-0000-10-1230-1903	Accum Def Inc Taxes Asset (Current)	$	-
8830-2-0000-10-1250-1840	Misc Billing Clearing	$	106,080
8830-2-0000-10-1251-1843	Transp Exp-DR-Clearing Only	$	-
8830-2-0000-10-1251-1849	Operating Clearing	$	-
8830-2-0000-10-1310-2626	Due from Liberty Utilities America Co	$	-
8830-2-0000-10-1615-1830	Preliminary Survey & Investigation Charges	$	169,765
8830-2-0000-10-1380-1630	Stores Expense Undistributed	$	-
8830-2-0000-10-1800-1903	Accum Def Inc Taxes Asset long term	$	(0)
8830-2-0000-10-1920-1741	Transmission over/under-current	$	8,346,646
8830-2-0000-10-1921-1862	Suspense- EPM Mapping	$	-
8830-2-0000-10-1930-1420	Phased in revenue - Long Term	$	-
8830-2-0000-10-1930-1822	Battery Storage Program	$	26,970
8830-2-0000-10-1930-1823	Other Regulatory Asset - Deferred Rate Case	$	65,770
8830-2-0000-10-1931-1810	Unamortized Debt Expense	$	13,684
8830-2-0000-20-2142-1821	Current Regulatory Liability - ECAC	$	-
8830-2-0000-20-2142-1822	Current Reg. Liability Border-Commodity Price AD.	$	-
8830-2-0000-10-1610-1050	Plant Held for Future Use	$	1,500,000
8830-2-0000-20-2002-2320	A/P-Customer Refunds	$	-
8830-2-0000-20-2142-2543	EAP Marketer Discount	$	910
		$	10,920,148

Vegetation Management provision/REP-current	$ 690,322
Transmission over/under-current	$8,346,646
Subject to Annual Rate Review	$9,036,968 not subject to rate case
Plant Held for Future Use	$1,500,000 not subject to rate case

Other deferred accounts should be reviewed through the rate case process, for recovery as appropriate.

<u>Capitalization $(103,720,043) and Liabilities $(15,000,000)</u>

The filing schedule RR-4 and the FERC Form 1 agree in total for the Capital:

	Per RR-4	Per FERC Form 1
Common Stock	$ (82,024,903)	$ (6,040,000)
Other Paid-in capital	$ (17,000,000)	$ (92,984,903)
Retained Earnings	$ 119,942	$ (4,535,099)
Retained earnings-Current year	$ (4,655,041)	
Retained Earnings adjustments	$ (160,041)	$ (160,0141)
Total Proprietary Capital	$(103,720,043)	$(103,720,043)

The capitalization was verified to the following general ledger accounts

8830-2-0000-30-3010-2010 Common Stock	$ -0-	
8830-2-0000-30-3050-4550 Interco CS-GSE	$(82,024,903)	Common Stock
8830-2-0000-30-3045-4550 Interco APIC-GSE	$(17,000,000)	Other Pd in Cap
8830-2-0000-30-3310-2160 Retained Earnings	$ 119,942	Retained Earnings
Net activity all revenue and expense accounts 2018	$(4,655,041)	Current Ret. Earnings
8830-2-0000-30-3800-0002 AOCI-Pension	$ 4,366,844	
8830-2-0000-30-3800-0003 AOCI-OPEB	$(4,694,207)	
8830-2-0000-30-3800-0052 OCI-Pension-Taxes	$ (231,310)	
8830-2-0000-30-3800-0153 AOCI-Pension-Taxes	$ (652,882)	
8830-2-0000-30-3800-0154 AOCI-OPEB-Taxes	$ 906,817	
8830-2-0000-30-3800-2192 OCI FAS 158-Pension	$ 74,918	
8830-2-0000-30-3800-2193 OCI FAS 158-OPEB	$ 69,779	
	$ (160,041)	Retained Earnings Adj.
General Ledger Total Capitalization	$(103,720,043)	

Audit Issue #9

<u>Common Stock $(82,024,903) Paid-in-Capital $(92,984,903)</u>

The FERC Form 1 page 112 line 2 reflects Common Stock $(6,040,000) and Other Paid-in Capital on line 7, $(92,984,903). Audit verified that the $(92,984,903) represents the *acquisition of Granite State Electric Company* by Liberty Utilities Energy (New Hampshire) Corp., per the FERC page 253, and should be booked to account **211**, Miscellaneous Paid in Capital. As of the prior test year, the figure was $(75,984,903). The 2018 figure is higher by the Other-Paid in Capital of $(17,000,000) discussed below. **Audit Issue #9**

<u>Other Paid-in Capital $(17,000,000)</u>

The referenced Other Paid-in Capital figure on the schedule RR-4 line 30. The figure is rolled into Other Paid-in-Capital on the FERC Form 1. Audit verified the figure to the general ledger account 8830-2-0000-30-3800-**4550**, Interco APIC-GSE. Audit understands that while the 4550 portion of the account number may be somewhat confusing, the use of the 30-3800 identifies the account as an equity account. Audit reminds the Company that compliance with the FERC is required. Refer to **Audit Issue #9**

Retained Earnings $(4,655,041)

The filing schedule RR-4 reflects the debit balance of $119,942 and credit balance of $(4,655,041) which net to the FERC Form 1 retained earnings balance of $(4,535,099). Audit verified that the net for all of the revenue and all of the expense accounts for the year is $(4,655,041).

Adjustment to Retained Earnings $(160,041)

8830-2-0000-30-3800-0002 AOCI-Pension	$ 4,366,844
8830-2-0000-30-3800-0003 AOCI-OPEB	$(4,694,207)
8830-2-0000-30-3800-0052 OCI-Pension-Taxes	$ (231,310)
8830-2-0000-30-3800-0153 AOCI-Pension-Taxes	$ (652,882)
8830-2-0000-30-3800-0154 AOCI-OPEB-Taxes	$ 906,817
8830-2-0000-30-3800-2192 OCI FAS 158-Pension	$ 74,918
8830-2-0000-30-3800-2193 OCI FAS 158-OPEB	$ 69,779
	$ (160,041)

Audit reviewed the activity in each account for the test year. Adjustments were reported to be based on actuarial reports, amortization expenses for Pension and OPEB, pension true ups and tax entries.

Long-term Debt $(15,000,000)

The filing schedule RR-4 reflects the amount within the general ledger account 8830-2-0000-20-2910-2240. The figure was noted on the FERC Form 1 page 112 line 18. That line represents Bonds account **221**, which is the correct account classification. **Audit Issue #9**

Date Issued	Maturity	Lender	Rate	Principal	Annual Interest
11/04/93	11/01/23	First Colony Life-1	7.37%	$ (5,000,000)	$ 368,500
07/13/95	07/01/25	First Colony Life-2	7.94%	$ (5,000,000)	$ 397,000
05/15/98	06/15/28	Paul Revere Life	7.30%	$ (5,000,000)	$ 365,000
				$(15,000,000)	$1,130,500

Audit recalculated the annual interest rate for each bond without exception. The total for the year, $1,130,500, was booked to account 8830-2-0000-80-8540-4270, Interest on Long-term Debt. The offset was booked to 8830-2-0000-20-2116-2371, Interest Accrued Long-term Debt.

Current and Accrued Liabilities

Notes Payable to Affiliates $(17,000,000)

The filing schedule RR-4 reflects the above total. Audit verified the total to the FERC Form 1 page 112 line 21 without exception. The total was also verified to the following general ledger accounts:

8830-2-0000-20-2840-2230 NP-LU and GS $3.4M 15YR @ 4.22%	$ (3,434,343)
8830-2-0000-20-2840-2231 NP-LU and GS $7.9M 10YR @ 4.49%	$ (7,898,990)
8830-2-0000-20-2840-2232 NP-LU and GS $4.1M 15YR @ 4.89%	$ (4,121,212)
8830-2-0000-20-2840-2233 NP-LU and GS $1.5M 10YR @ 4.89%	$ (1,545,455)
	$(17,000,000)

In December 2017, the Company renewed the $(3,434,343) note, which was extended from a five year note to a fifteen year note, maturing on 12/20/2032. Maturities of the other notes respectively are: 12/20/2022, 12/20/2027, and 12/20/2027. The note issued in December 2017 was approved by Commission Order 26,805 in docket DE 17-133. The original note, which expired in 2017 was part of an overall authorization of up to $20 million, per Order 25,370.

Audit recalculated the interest for each note payable above, and verified the annual total expense for the year, $776,694, was accurately booked to the interest expense account, 8830-2-0000-20-2810-2603, Intercompany Interest Expense-LU Co. That account included an additional $1,145 in interest (posted monthly as $95.40). Offsets to the $776,694 were credited to 8830-2-0000-20-2170-2603, I/C Interest Payable - LU CO. Offsets for the $1,145 were credited to account 8830-2-0000-10-1936-1000, Deferred Financing – Intercompany. The account is included in RR-4, Due from Affiliates total of $25,009,833, discussed earlier.

Accounts Payable $(5,881,954)

The filing schedule RR-4 line 41 indicates the total accounts payable figure at $5,881,954. The total was verified to the general ledger accounts:

8830-2-0000-20-2110-2425	Gas/Power Purchases Accrual	$ (3,948,264)
8830-2-0000-20-2111-2422	Non Assoc Co Energy Supplier	$ (1,933,690)
		$ (5,881,954)

These payable accounts were not reviewed in detail, as they relate to third party suppliers.

Due to Affiliates $(36,480,672)

The filing total on RR-4 line 42 was verified to:

8830-2-0000-20-2810-2596	Due to APUC	(68,254.90)
8830-2-0000-20-2810-2603	Due to LU Co.	(250.02)
8830-2-0000-20-2810-2606	Due to Liberty Energy New Hampshire	(34,625,532.22)
8830-2-0000-20-2810-2626	Due to Liberty Utilities America Co	(1,320,220.44)
8830-2-0000-20-2170-2603	I/C Interest Payable - LU CO.	(323,622.43)
8830-2-0000-20-2116-2371	Int Accr-LTD	(142,791.64)
		(36,480,671.65)

In the 2015 rate case, the Due to Affiliates total was $2,374,192, the sum of the Due to Liberty Utilities America, and the Int Accr-LTD. After the 2015 rate case, all payable transactions flow through the Due to Liberty Energy New Hampshire account.

Interest Accrued in account -2116-2371 was noted on the FERC Form 1, line 43 on page 112.

Customer Deposits $(1,278,349)

The filing schedule RR-4 , line 43 total for Customer Deposits was verified to the general ledger account 8830-2-0000-20-2113-2350. The total also agrees with the FERC Form 1.

Accrued Expenses $(14,081,662)

The filing schedule RR-4 line 44 was verified to:

8830-2-0000-20-2110-2420	Misc Accrued Liabilities	$	(781,090)
8830-2-0000-20-2110-2426	ISO NE Accrual	$	(2,864,180)
8830-2-0000-20-2111-2420	Unapplied Payments	$	(296,994)
8830-2-0000-20-2141-2420	Curr&Accr Liab-Pole Attch Rntl	$	(32,989)
8830-2-0000-20-2141-2423	Curr&Accr Liab-REC Obligation	$	(917,647)
8830-2-0000-20-2141-2425	RGGI Funds II - EE Financing	$	(281,345)
8830-2-0000-20-2142-2426	Current Regulatory Liabilities	$	(6,815,369)
8830-2-0000-20-2142-2423	Curr&Accr Liab-R Ref-C&LM	$	(1,200,000)
8830-2-0000-20-2142-2428	RGGI-Auction Proceeds To All Dist. Customers	$	(611,188)
8830-2-0000-20-2142-2542	Systems Benefits Charge	$	(101,493)
8830-2-0000-20-2550-2416	Tx Coll Pay-Consumption Tax	$	(43,247)
8830-2-0000-20-2760-2534	Def Cr-Hazardous Waste	$	(118,383)
8830-2-0000-20-2930-2280	Accum Provision Injury & Damages	$	(17,737)
		$	(14,081,662)

Miscellaneous Accrued Liabilities $(781,090) represents the beginning balance of $(704,379) with (rounded) net activity of:

Accruals related to line of credit interest	$ (79,596)
Audit fees	$(120,600)
NEP	$ (59,057)
Contract Termination	$(244,733)
CTC stranded cost revenue	$ 271,053
Other adjusting entries	$ (62,642)
eTRACK invoices and Payables	$ 267,377
Reclassifications and True-ups	$ (48,511)

The ISO-NE Accrual $(2,864,180) is the December 2018 accrual. Monthly, accruals are credited at the end of the month and debited on the first of the following month. The offsetting account is 8830-2-0000-51-5441-5650, Transmission of electricity by others

The Unapplied Payments figure of $(296,994) represents customer overpayments or payments made that did not identify the account to which the payment should be posted. This figure has dropped from the prior 2015 rate case balance of $(453,155). Refer to Revenue.

The Pole Attachment-Rental $(32,989) is discussed within the Revenue section of this report.

Activity in the Current Regulatory Liabilities $(6,815,369) represents:

Beginning Balance	$(7,208,935)	
LRAM interest	$ 628	
LRAM monthly estimate	$ 280,584	
Reclass EE and LRAM	$ (282,606)	
Move liab. and asset balance	$ 394,960	moved quarterly on balance sheet-see **Audit Issue #9**
	$(6,815,369)	

Information relating to Tax Coll Pay-Consumption Tax details are included within the Tax portion of this report.

The Current and Accrued Liab-REC Obligation, RGGI Funds II-EE Financing, C&LM RGGI Auction Proceeds, and Systems Benefits Charge accounts are reviewed annually as part of the Energy Efficiency, REF, and RGGI audits, thus were not reviewed during this rate case audit.

Deferred Credit-Hazardous Waste $(118,383). During the test year, there were two small debits made to this account, representing a decrease to the balance of $2,426. Further review of the account was not conducted.

Accumulated Provision for Injuries and Damages $(17,737) reflected six true-up debit entries, summing to $116,336. The total of $116,336 was credited at year-end to account 8830-2-9823-69-5280-9250, Injuries and Damages.

ADIT-Credits $(15,273,030) per the filing RR-4 line 47 was verified to the general ledger accounts:

8830-2-0000-20-2142-2830 Excess ADIT Reg. Liability-Short Term	$ (78,246)
8830-2-0000-20-2530-2364 Tx Accrued-Municipal Property	$ -0-
8830-2-0000-20-2730-2830 Accum Def Inc Taxes Liability-Current	$ -0-
8830-2-0000-20-2910-2830 Excess ADIT Reg Liability Long Term	$ (5,220,094)
8830-2-0000-20-2965-2830 Accumulated Def Inc Taxes Liab. Long Term	$ (9,974,690)
	$(15,273,030)

Account 8830-2-0000-20-2965-2830 was verified to the FERC Form 1, page 113 line 64. Refer to the Tax portion of this report for other information.

Deferred Assets-Pension/OPEB $(14,699,662) per the filing RR-4 line 48 was verified to the FERC Form 1 page 112, line 29, and to general ledger accounts:

8830-2-0000-20-2930-2283 OPEB/FAS 106 Benefit Reserve	$ (6,170,274)
8830-2-0000-20-2930-2285 Long Term Pension Obligation	$ (8,529,388)
	$(14,699,662)

Activity in the 2283 account was offset to FAS 106 (Retiree Health Care) 8830-2-0000-69-5044-9262. $349,620 in June 2018 was reclassified from the expense account to 8830-2-

0000-80-8551-9262 Non-service OPEB costs. An additional $142,708 was reclassified out of the -5044-9262 account into account 8830-2-9810-69-5044-9262 FAS 106 Retiree Health Care.

Activity in account 2285 was reviewed. Amortization entries, true-up entries, payables, and true-up at year-end to the actuarial calculation were reported. The year-end true-up was posted to AOCI-Pension, account 8830-2-0000-30-3800-0002.

Deferred Assets-Storm/Other $(6,545,285) per the filing RR-4 line 49 is reflected in the general ledger account 8830-2-0000-20-2142-2548. This account is reviewed annually as part of the Storm Fund audits conducted. See also account 8830-2-0000-10-1930-1825, Storm Costs. The balance in that account at 12/31/2018 was $5,334,016.

Other Non-current liabilities $(227,928) per the filing RR-4 line 50 was verified to the Excess Depreciation less than 1-year general ledger account 8830-2-0000-20-2142-1823. Refer to the Depreciation portion of this report for other information.

Customer advances for construction $ -0- per the filing RR-4 line 51 was not reviewed.

REVENUE $(101,804,082) per Filing Schedule PUC 1604.01(a)(1)b and RR-2-1

The filing schedule PUC 1604.01 (a)(1)b, page 1 reflects the total test year revenue of $(101,804,082). The following summarizes the operating revenue, as per schedule RR-2 page 1 of 1, lines 2 through 5:

Distribution	$ (62,464,872)
Commodity	(38,380,547)
Other Operating Revenue	(958,663)
Total Operating Revenue per the Filing	**$(101,804,082)**

The PUC 1604.01 Distribution figure includes the Provision for Rate Refunds debit balance of $362,756. The filing schedule RR-2-1 reflects the totals by billing types.

Audit verified the filing reported test-year ended 12/31/2018 Operating Revenue figure of $(101,804,082), to the 2018 FERC Form 1 page 114 and to the following general ledger accounts:

Account Number	Account Description		2018
8830-2-0000-40-4290-4401	Residential Sales - Fixed Portion	$	(6,191,134)
8830-2-0000-40-4290-4423	Commercial Sales - Fixed Portion	$	(2,023,014)
8830-2-0000-40-4290-4426	Industrial Sales - Fixed Portion	$	(210,327)
8830-2-0000-40-4290-4441	Public Street & Highway Lighting - Fixed Portion	$	(919,521)
		$	(9,343,997)
8830-2-0000-40-4290-4402	Residential Sales - Variable Portion	$	(22,117,033)
8830-2-0000-40-4290-4424	Commercial Sales - Variable Portion	$	(25,354,028)
8830-2-0000-40-4290-4427	Industrial Sales - Variable Portion	$	(5,941,732)
8830-2-0000-40-4290-4442	Public Street&Highway Lighting-Variable Portion	$	(70,839)
		$	(53,483,631)
	RR-2-1, Bates II-103, Line 122	$	(62,827,628)

Account Number	Account Description		2018
8830-2-0000-40-4290-4403	Residential Sales - Energy Cost	$	(23,025,404)
8830-2-0000-40-4290-4425	Commercial Sales - Energy Cost	$	(13,929,443)
8830-2-0000-40-4290-4428	Industrial Sales - Energy Cost	$	(1,290,857)
8830-2-0000-40-4290-4443	Public Street & Highway Lighting - Energy Cost	$	(134,843)
	RR-2-1, Bates II-103, Line 123	$	(38,380,547)

Account Number	Account Description		2018
8830-2-0000-40-4290-4491	Prov for rate refunds RR-2-1, Bates II-103, Line 124	$	362,756

Operating Revenue, Distribution, on the filing Schedule RR-2 $(62,464,872) is the net of the fixed and variable portion accounts above and the Provision for Rate Refunds. 100% of the Energy Cost revenue, $(38,380,547) was noted as a flow-through line item on the filing Schedule 2, Bates page II-089.

Account Number	Account Description		2018
8830-2-0000-40-4210-4510	Misc. Service Revenues	$	(206,060)
8830-2-0000-40-4210-4511	Misc. Service Open Access DSM	$	(427,157)
	RR-2-1, Bates II-103, Line 126	$	(633,217)

Account Number	Account Description		2018
8830-2-0000-40-4210-4540	Rental Income RR-2-1, Bates II-103, Line 127	$	(303,082)

Account Number	Account Description		2018
8830-2-0000-40-4210-4560	Other Electric Revenue	$	(141,825)
8830-2-0000-40-4210-4563	Other Elec Rev-Open Access Rev-Distribution	$	285,361
	RR-2-1, Bates II-103, Line 128	$	143,536

Account Number	Account Description		2018
8830-2-0000-40-4290-4473	Sale for Resale - Fixed Portion	$	(342)
8830-2-0000-40-4290-4474	Sale for Resale - Variable Portion	$	(77,696)
8830-2-0000-40-4290-4475	Sale for Resale - Energy Cost	$	(87,861)
	RR-2-1, Bates II-103, Line 129	$	(165,899)
	Total Revenue RR-2-1, Bates II-103, Line 130	$	(101,804,082)

Audit acknowledges that the filing schedule RR-2 indicates that of the $(101,804,082) total revenue, $(60,580,166) represents flow-through items. The total flow-through is comprised of the following:

Distribution	$	(22,199,619)
Commodity		(38,380,547)
	$	(60,580,166)

Liberty provided schedules RR-2 through RR-2-2 in conjunction with the direct testimony of Greene and Simek. Bates page II-087 of the testimony states the following:

"Schedule RR-2-2 presents the detail supporting the 'flow-through items' [reported] on schedule RR-2-1. These items reflect the offsetting and elimination of purchased power revenue and costs, offsetting and elimination of transmission wheeling revenue and costs, and elimination of the differences between purchase power revenue and costs and elimination of non-recurring revenue items."

Audit noted the total distribution flow-through $(22,562,375) reported on schedule RR-2-1 and RR-2-2. The revenue figure was verified from the monthly Cogsdale Bills and Volumes revenue reports to the five accounts below, each beginning with 8830-2-0000-40-4290-.

	RGGI	LRAM	Transmission	Total by GL
Residential Sales-Variable #4402	$ (330,047)	$ (49,614)	$ (7,872,984)	$ (8,252,645)
Commercial Sales-Variable #4424	$ (544,756)	$ -	$ (10,922,985)	$ (11,467,741)
Industrial Sales-Variable #4427	$ (140,293)	$ -	$ (2,605,696)	$ (2,745,989)
Public Street/Hwy Lighting-Variable #4442	$ (4,621)	$ -	$ (62,898)	$ (67,518)
Sales for Resale-Variable #4474	$ -	$ -	$ (28,481)	$ (28,481)
	$ (1,019,716)	$ (49,614)	$ (21,493,044)	$ (22,562,375)

The commodity distribution flow through of $(38,380,547) was verified by Audit to the four specific general ledger accounts above, and corresponded with supporting schedules RR-2, as well as the filing PUC 1604.01 (a)(1)a, page 1. Audit confirmed that the amount was offset to the Purchased Power expense account 555 (see Operations and Maintenance portion of this report), for both the variable and fixed portions. The total in each expense account was $45,040 and $38,333,751 respectively, for a total of $38,378,791. Audit noted the $1,756 variance between the commodity revenue of $38,380,547 and the expense flow through amount of $38,378,791. Liberty explained that, *"[The] differences between Revenue and Expense for flow-through items are timing differences."*

Also noted on RR-2-1 was a flowthrough of $362,756 for the Provision for Refunds account 449, which Audit verified to the general ledger 8830-2-0000-40-4290-4491.

Audit also verified the 2018 calendar year end revenues from the general ledger to the FERC Form 1 without exception. Liberty provided the monthly general ledger and Cogsdale revenue reconciliations. Liberty provided this information through Excel spreadsheets and Audit reviewed each month's activity and reconciliations for the above revenue accounts.

Miscellaneous Service Revenues, 4510: Audit reviewed the general ledger Miscellaneous Revenue account, totaling $(206,060). The majority of the postings to this revenue account were for customer connection fees and late penalty fees. Audit requested the supporting detail for three inter-company transfer amounts and the Company provided the journal entries. Audit noted that one of the transactions sampled included late fee penalties reported in the month of December and from multiple customer accounts, as represented by the following journal entry:

Customer Accounts Receivable 8830-2-0000-10-1101-1420	$1,270	
Miscellaneous Service Revenues 8830-2-0000-40-4210-4510		$1,270

Audit reviewed the Tariff to ensure that the terms and conditions of any late fees were both permitted and accurately acquired. Page 23 of the Tariff explains the allowance of the Company to collect late fees, at a rate of 1 ½ % of any remaining unpaid and previously billed amount. Audit sampled one of the customer invoices included and confirmed the 1 ½ % late fee calculation.

Miscellaneous Service Revenue-Open Access Demand Side Management (DSM), 4511: is the revenue account used to record the annual energy efficiency incentive (EEI). Audit reviewed the monthly revenue postings for both the EEI, as well as a monthly LRAM estimate. Audit noted that each month there was a $10,858 transaction recorded to the general ledger for the EEI and a monthly ($23,382) transaction recorded for the LRAM. Audit requested clarification of the LRAM monthly estimate and Liberty explained that, "*The entry that supports the $(23,382) records the monthly portion of the annual estimate of Lost Revenues associated with energy efficiency programs.*" Audit reviewed the following January 31, 2018 journal entry:

Current Regulatory Liabilities 8830-2-0000-20-2142-2426	$23,382	
Misc Ser Rev-Open Access DSM 8830-2-0000-40-4210-4511		$23,382

Audit noted a reduction on the filing Schedule RR-3 to Miscellaneous Service Revenue in the amount of ($192,548), associated with FERC account #451. Audit concurs with the removal of incentive revenue for energy efficiency programs and non-recurring charges to customers, as per the Electric CORE DE 14-216, allowing for Commission approved shareholder incentives. Refer to the 2018 DE 17-136 annual audit for detailed review of the incentive, among all other energy efficiency revenues and expenses.

The GL total, for both the Miscellaneous Service Revenue 4510 account balance of $(206,060) and the Miscellaneous Service Revenue Open Access 4511 account balance of $(427,157), is $(633,217). However, page 300 of the FERC Form 1 lists $6(33,217) as the total for Miscellaneous Revenues 4510 as $(587,241) and $(45,975) in Forfeited Discounts 450. Audit questioned the split of the Forfeited Discounts 450 from the Miscellaneous Service Revenues 451. In response, the Company provided an Excel spreadsheet detailing the GL data for both accounts; however, no explanation was provided as to why the $(633,217) revenue is split into Miscellaneous Service Revenues and Forfeited Discounts on the FERC Form 1. **Audit Issue #10**

Rental Income, 4540: Audit selected thirteen transactions from the general ledger account and requested the supporting documentation. Audit reviewed copies of the invoices corresponding to the general ledger transactions, along with the monthly payment activity report for the test year and the amortization schedule of the pole rentals. The amortization schedule was compared against the general ledger Rental Income account and Audit verified the correct recording of the monthly $15,556 amortization amount for the pole rentals. Amortization credits were offset with debits to account 8830-2-0000-20-2141-2420 Curr&Accr Liab-Pole Attch Rntl.

Contracts

Audit requested copies of any special contracts in effect during the 2018 test year. The Company responded by stating that, *"GSE does not have any special rate contracts during the test year, nor does it now."*

Audit requested copies of all rental contracts between the Company and any other company renting or leasing space from them. As such, contracts between New Cingular Wireless and Sprint were provided and reviewed by Audit.

The details outlined within the New Cingular Wireless and Sprint contracts were reviewed by Audit and include tower rentals at 9 Lowell Road, for a fixed monthly license fee throughout the 60-month term of the contract. At that time, the New Cingular Wireless and Sprint fixed license fees will include a 5% and 3% annual increase, respectively. Audit reviewed the provided Transaction by Customer Inquiry Reports and verified that the monthly payments from both New Cingular Wireless and Sprint were in accordance with their respective contracts.

Through the review of corresponding invoices, Audit verified that revenue recorded on the GL was for the pole and tower attachment rentals from AT&T and Sprint, as well as the monthly pole rental amortization. Additionally, Audit verified that the rental rates billed corresponded with both the amount stated in the contracts and the amount recorded as paid on the monthly payment activity report.

Other Electric Revenue, 4560: Audit reviewed the general ledger account and determined that the majority of the revenue in this account relates to water heater rentals. As per Order No. 26,148, dated June 15, 2018, Audit noted that the Company's water heater program was sold and had a closing date of October 1, 2018.

As part of the review, Audit inspected general ledger transactions, invoices, and journal entries for each month within the 2018 billing cycle. Audit also reviewed transactions recorded to the general ledger, as well as copies of corresponding invoices, for other revenue types such as subscription renewals and data services. Audit noted a lack of detail in the description of some of the invoices, reporting only "auto-renew subscription", and reviewed the Tariff for clarification. Original page 28 of the Tariff explains the subscription service fee as the following:

"Optional Interval Data Service under this provision is available to customers receiving service from the Company under the Company's Optional Enhanced Metering Service Provision, page 27 of the Company's Tariff, or customers receiving metered retail delivery service from the Company who have a Company-owned interval data recorder (IDR) installed at their facilities.

Under Optional Interval Data Service, the fees will vary depending upon the number of accounts and frequency of requests for interval data. Access is available to the customer or its authorized agent. The Company may offer subscriptions to eligible customers for access to interval data through an Internet account that is available for the customer's use. The minimum contract length is one year."

Audit verified the $55.00 transactions on the account to the "one-time request for interval data" fee on page 29 of the Tariff. Audit also noted annual "subscription service for interval data over the internet" transactions for $309.00 on the revenue account, along with the corresponding invoices. Audit confirmed this amount to the Tariff.

<u>Other Electric Revenue Open Access, 4563</u>: The general ledger account was reviewed by Audit. Transactions were recorded once per month and associated with the Reliability Enhancement Program (REP) and Vegetation Management Program (VMP) adjustment factor revenues. Audit requested the reconciliation for this account and verified that it is reviewed and reconciled annually.

Audit recognized that the account has declined from $164,382 reported in the previous year 2017, to $141,825 reported in the test year 2018. Moreover, the Other Electric Revenue Open Access Revenue Distribution account also declined from $(42,762) reported in 2017 to $(285,361) reported in 2018. Audit questioned the decline in revenue and the Company responded with the following:

"The decrease in Other Revenue from 2016 to 2018 is mainly due to the transactions charged to account 4563 (Other Electric Revenue Open Access). This account is used solely to record an offset to the revenue billed through the REP/VMP Charge, and the amount is transferred to the balance sheet deferral account. The REP/VMP rate changes annually, with the corresponding change in the offset to Other Revenue for the received from customers." For further detail, refer to the Company's response regarding Staff Data Request No. 5-3.

<u>Residential, Commercial, Industrial, Public Street and Highway Lighting, and the Sale for Resale, 4401 – 4475:</u> Transactions recorded for these general ledger accounts represent the fixed, variable, and energy cost portion of the revenue, including the monthly RGGI collections credits to the Public Street and Highway Lighting account. Audit reviewed the sales transactions from each of the accounts and selected five samples to examine from amounts recorded on the general ledger. Audit requested further clarification regarding the billing process for these "sales" transactions and Liberty explained that, *"The [sample transactions] represent sales*

automatically generated from the CIS system and then sent over to Great Point to generate the journal entries. Individual customer records (approximately 44,000) would support such transactions."

Provision for Rate Refunds, 4491: represents the reflected deferrals of over/under calculations related to Default Service and the recording and reversing of the Renewable Energy Credits (REC) liability and normalization. Audit requested clarification of the Renewable Energy postings and Liberty provided the following explanation:

"Each year based upon the estimated KWH load for the company a certain amount of renewable energy credits must be purchased (REC Obligation). The REC Obligation accrual is trued-up quarterly to reflect GSE's remaining unmet REC obligation for the current year. The annual obligation, less any RECs that have already been purchased and received (i.e. RECs Delivered or Banked), is accrued based on the quarter in which the accrual is being recorded, 25% in March, 50% in June, 75% in September, 100% in December. The revised accrual is recorded and the accrual for the previous quarter is reversed."

Audit reviewed the general ledger and selected a sample from the 2018 Provision for Rate Refunds entries. The total amount reviewed was a "REC Obligation" credit entry for the end of June, totaling $(1,451,290), as well as its reversal for the end of September. The amount was offset to the A/R REC Obligation account 8830-2-0000-10-1101-1429.

Accrued Utility/Unbilled Revenue

Audit inspected the general ledger transactions and verified that the monthly unbilled credits auto-reverse on the first of the following month. Audit also reviewed a sample of the 2018 unbilled revenue for the end of March and the beginning of April. As such, an accruing entry totaling $1,696,112 was recorded to the Provision for Rate Refunds (4491) account at the beginning of the period and then a reversing entry was recorded for the following month. Audit was able to appropriately match the journal entry, offsetting the amount to asset account A/R Under Collect 8830-2-0000-10-1101-1423, for the corresponding period. The following is the sample entry reviewed by Audit and reversed in the following month:

Debit A/R Under Collect 8830-2-0000-10-1101-1423	$1,696,112	
Credit Provision for Rate Refunds 8830-2-0000-40-4290-4491		$1,696,112

Billing Test 4401-4428

Staff randomly sampled the billings for five residential customers and five commercial/industrial customers. Of the invoices tested, compliance with the tariff on file for both the flat (either quarterly or monthly) customer charge, as well as the consumption charge, was determined and no exceptions were noted.

Tariff Review

Audit performed a random selection analysis, requesting from Liberty the customer invoices issued during the 2018 test year. Audit reviewed and recalculated the invoice rates from each rate class for compliance with the tariff. The selection included customer invoices for the period January 2018 through the end of the year with the following result:

- Rate D for service 12/18/17 – 1/18/18 with a due date on 2/20/18. The rates agree with original tariff page 93.
- Rate D10 for service 04/20/18 – 05/22/18 with a due date on 6/22/18. The customer was enrolled as peak/off-peak. As a result, the invoice demonstrated charges for both usage times. The rates agree with original page 96 of the tariff.
- Rate G1 for service 07/11/18 – 08/09/18 with a due date on 9/11/18. The invoice totals agree with the tariff first revised page 98.
- Rate G2 for service 11/15/18 – 12/17/18 with a due date on 1/17/19. The invoice reflects the accurate tariff rates per the fifth revised page 117.
- Rate G3 for service 06/27/18 – 07/30/18 with a due date on 8/29/18. The invoice reflects the accurate tariff rates per the first revised page 106.
- Rate M for service 12/26/17 – 1/25/18 with a due date on 2/27/2018. The luminaire invoice reflected the tariff rates as summarized on original page 106 of the tariff.
- Rate T for service 1/11/18 – 2/9/18 with a due date on 3/14/18. The invoice reflected the tariff rates summarized on the original tariff page 114.
- Rate V for service 07/17/18 – 08/15/18 with a due date on 9/17/18. The invoice agrees with the rates reflected in the fifth revised tariff page 117.

As verified to the revised tariff page 117, the customer's monthly amount charged is comprised of the distribution charge, the REP/VMP, energy service, storm recovery adjustment factor, normal weather adjustment factor, and delivery service charges, as well as transmission, stranded cost and system benefits charges. Audit reviewed each invoice for accuracy of the charges, both for compliance with the tariff and for mathematical calculation.

Audit noted the separation of existing LED rates from the Rate M outdoor lighting service structure. The Company explained that when the share of electric distribution system marginal costs assigned the Rate LED and Rate M are different, *"The separation of LED rates from Rate M in the tariff is administrative and merely intended to allow for clearer rate options for outdoor lighting because we have proposed a second LED rate (LED-2). The marginal costs assigned to Rate M are inclusive of all outdoor lighting."*

<u>Accounts Receivable (142)</u>

The FERC Form 1 reflects a total Accounts Receivable balance of $13,051,794, which Audit verified to the general ledger. Accounts 1420 and 1421 are part of the Accounts Receivable figure $$12,530,433 on RR-4, and the Unapplied Payments account is part of Accrued Expenses total of $(14,081,662) on RR-4. Refer to the Current Assets and Liabilities sections of this report.

8830-2-0000-10-1101-1420 Customer Accounts Receivable	$12,634,538
8830-2-0000-10-1101-1421 Customer AR-Misc. Billing	$ 714,250
8830-2-0000-20-2111-2420 Unapplied Payments	<u>$ (296,994)</u>
Total FERC Form 1 Accounts Receivable	$13,051,794 See **Audit Issue #9**

Audit requested and reviewed the detailed Aged Trial Balance (ATB) and listing of the unapplied payments account, as of December 31, 2018. The following depicts the identified aging of receivables, as reflected in the ATB:

Age	Amount
Current	$ 9,575,639
30 Day Arrears	1,413,995
60 Day Arrears	337,673
90 Day Arrears	237,011
120 Day Arrears	137,348
150 Day Arrears	88,472
151+ Day Arrears	870,049
Unapplied	$ (275,898)
Total Due	**$ 12,384,289**

Pivot table (general ledger) detail provided to support the receivable balance reflected 36,173 lines of data in one Excel spreadsheet, with an account balance of $12,634,538. However, the ATB total due was reported as $12,384,289 and Audit inquired about the $250,248 variance between the accounts receivable balance on the filing and the balance on the ATB. In response, Liberty provided the accounts Receivable Reconciliation worksheet for December 2018, along with the following explanation:

"When the AR aging is run, we prepare an ATB analysis each month. The data is broken out into Current and Former customers, as well as Residential vs. Commercial. The unapplied [amounts are] then reviewed and allocations are made to apply unapplied funds to accounts that are applicable, hence, a monthly adjustment to AR and unapplied, which is a reversing entry. AR on the ATB is adjusted each month to apply the unapplied. There is a delta each month. Where these are balance sheet accounts, the balance forward in each fiscal year reflect these adjustments."

Audit requested the documentation depicting the test year 2018 delta amount of $4,108 and the Company provided an Excel spreadsheet with an explanation of the delta calculation. The following represents the unapplied entry that was reversed the first of the prior month:

Dec 2017 reversal DR of $277,023.25
Dec 2018 entry CR of ($272,915.18)

Audit noted the delta between the December 2017 and 2018 entries of $4,108.07 and that it coincides with the Company's explanation above regarding the reversing entries. Additionally, Audit verified that the total delta amount was determined by the difference between the Accounts Receivable (142) balance as of December 31, 2018 totaling $12,634,537 and the ATB as of December 31, 2018 totaling $12,384,289. As such, the delta is equal to the $250,248 previously questioned by Audit and thereby subsequently reviewed in the Receivable Reconciliation worksheet for December 2018, as provided by the Company.

The total amount of accounts listed on the ATB as 151 days past due totaled $870,049. Audit selected sample amounts from three different customer account numbers and requested the supporting invoices and journal entries for further review. The Company supplied the requested material, including invoices from the prior year, which demonstrated the history of accounts over 151 days past due.

Audit requested a copy of the Company's write-off policy and noted that, *"If an account is not collected within 60 days of the final bill, it will be written off in full and referred to a 3rd party collection agency at 65 days. Any future collections on such account will offset the bad debt expense in the month of collection. Upon notice of any account filing for bankruptcy, the account will be written off to ensure it is fully provided for and any subsequent collections on the account will offset bad debt expense in the month of collection."*

<u>Accumulated Provision for Uncollectible Accounts (1443) – ($818,355)</u>

Audit noted a balance of $(818,355) on the Provision for Uncollectible Accounts 8830-2-0000-10-1102-1443 for the 2018 year end. This amount is 6% of the Customer Accounts Receivable (142) and has decreased by 24% from the prior year's balance of $1,083,527. Refer to the <u>Expense</u> portion of this report, Uncollectible Accounts #904, for additional details.

<u>Payroll</u>

During test year 2018, all GSE employees were employed by Liberty Utilities Service Corp.

Payroll is completed on a weekly and bi-weekly basis. Union employees, such as linemen, are paid on a weekly basis whereas non-union employees are paid bi-weekly.

The final 2018 pay period ended December 22, 2018 and was paid December 28, 2018 for both weekly and bi-weekly paid employees. Audit reviewed both detailed payroll registers for that final pay period.

Through a reconciliation, Audit tied the weekly and bi-weekly final pay period total payroll to an Oakville payroll repot and an HRIS payroll report. Both of the weekly and bi-weekly payroll registers equaled the Oakville reports but the HRIS reports showed a variance. The variance amounts are attributed to "awards". A spreadsheet of the awards allocation totaling $17,650 was provided to Audit. A total of $5,235 was booked to ten GSE GL accounts. Audit reviewed general ledger accounts where the awards were booked and notes that on 12/31/18 the amounts were credited from the account resulting in the removal of the expense.

The weekly and bi-weekly reconciliations contained a spreadsheet showing how much was charged to each general ledger account based on HRIS data. Audit was able to verify the final pay period charges of the 8830 accounts to the GSE general ledger with the exception of the 1070 construction work in progress account. GSE's payroll department noted that the HRIS file is completed prior to the payroll data being upload to Ceridian. When the Ceridian upload is performed, on occasion, items will be kicked out if there is a mapping error. For example, there is lag time when a cost code gets updated. An employee may book their payroll to a cost code that is not yet active. All items that are kicked out during the upload process are automatically charged to the clearing account 1847.

The difference between the HRIS 1070 amount and the general ledger amount was $1,794.57 for bi-weekly payroll and $749.22 for the weekly payroll. Audit was able to verify that these amounts were automatically mapped to 1847 and allocated to GSE during the clearing of the STAT account as noted below.

Some payroll expenses are not allocated to a specific GL account but to "(blank)" on the HRIS report. The types of payroll expenses that are charged to this account are bi-weekly vacation time, holiday and some other codes.

The payroll expensed to "blank" is entered into account 8810-2-0000-20-2140-1847 - Payroll Clearing STAT every pay period. The payroll expenses in the clearing account are allocated to the appropriate companies' general ledger. Audit reviewed the miscellaneous payroll codes that were expensed to the clearing account for the final pay period in December and allocated to GSE and Energy North. Audit verified the GSE general ledger to an allocation spreadsheet provided by GSE's payroll department. A total of $21,186.91 was allocated to five GL accounts for weekly payroll and $13,836.25 was allocated to sixteen general ledger accounts for bi-weekly payroll. No exceptions were noted.

From the final HRIS report of the year, Audit randomly selected eight bi-weekly employees and eight weekly employees for a review of timesheets.

Bi-weekly timesheets for the period of December 9, 2018 through December 22, 2018 were reviewed in detail. Audit was able to tie all eight bi-weekly paid employees' timesheets to the payroll register detail. All the hours on the timesheets matched the register. Types of pay included regular hours, vacation pay, and Liberty days. Each employee receives three Liberty days a year in which they can volunteer in the community and still receive his/her regular pay.

Audit questioned why vacation hours employees took did not show up on the HRIS report. GSE noted that vacation hours show up on the HRIS report as TNW (time not worked) and are booked directly to 8810-2-0000-20-2140-1847. As the HRIS report Audit reviewed was for 8830 only, these hours did not show up. Audit reviewed additional documentation provided by GSE and was able to verify these hours were booked to the clearing account. No exception was noted.

Audit reviewed the eight weekly paid employees' timesheets for the period of December 16, 2018 through December 22, 2018 in detail. Each electric employee's hourly rate, based on job title, was verified to the Union Contract without exception. The types of pay employees received during the final pay period included regular, rest, sick, on call premium, and overtime.

All hours recorded on eight weekly employees' timesheets were verified to the payroll register detail without exception. On call premium rates and overtime rates paid to the employees were verified to the union contract without issue.

Schedule RR-3-01 in the filing stated the total O&M payroll for 2018 was $7,081,853. GSE provided a trial balance for the payroll, which summed to $7,081,853. Audit randomly selected journal entries from each quarter and verified the activity to the general ledger. The general ledger activity for each journal entry also includes Construction Work in Progress, storm costs, and accrued cost of removal. These items were correctly removed on the TB as the payroll amount of $7,081,853 is for O&M only.

During Audits review of the TB, it was discovered that eight entries totaling $1,444 were charged to payroll in error. These charges were for vendor invoices and per GSE's review of the entries, they note the amounts should have gone to the cost code for voucher and not payroll. Audit recommends removing $1,444 from the payroll total.

As noted in the O&M section below, a mapping error for job 8830-9851-59401 resulted in payroll be charged to the 5210 account and not the 5010 account. The O&M payroll total of $7,081,853 noted in the filing is based on payroll booked to 5010. Due to this, audit recommends increasing the payroll amount by $19,344 to capture the payroll that was mis-mapped to 5210.

After the two recommended adjustments above, Audit notes the O&M payroll total to be $7,099,753. **Audit Issue #22**

The Dayforce Payroll Register Report shows a total payroll of $30,222,785 for the year. The payroll register reflects all payroll for NH, which includes GSE and ENG. Due to this, Audit was not able to directly tie the Schedule RR-3-01 to the Dayforce report. GSE previously noted during the last rate case audit, in Docket DE16-383, that the Dayforce report will not tie directly to Schedule RR-3-01 as Dayforce is only NH employees where Schedule RR-3-01 represents all payroll charged to NH.

GSE's payroll is processed through Ceridian. Audit reviewed the Ceridian contract in detail, which noted the contract terms and fees charged.

Union contracts and Payroll Policies and Procedures were obtained and reviewed.

Liberty Utilities and Algonquin Payroll

On December 5, 2019 Audit requested two intercompany invoices with portions expensed to A&G Salaries; one invoice from Algonquin Power & Utilities Corp and one from Liberty Utilities Canada Corp to review in detail. Invoices were provided, however, the allocation to GSE, and to which accounts, was not initially provided. After issuance of the Draft Audit report, December 9, GSE on December 23 provided Audit with the December APUC invoice in the amount of $55,144.48 and the LUC invoice in the amount of $51,537.93. On December 27, 2019 Audit requested the GL entries for the invoices, and was provided the entries for the corporate level. On that same day, Audit clarified the request noting they were looking for the journal entries booking the invoice amounts to GSE's general ledger. After a phone conversation with GSE to further clarify what was being requested, GSE reached out to their team on December 31, 2019 for the GL information. On January 15, 2020, GSE followed-up with their team and then provided the GL detail that was requested to Audit.

30% of the $55,144.48 APUC invoice was allocated to GSE in the amount of $16,543.34. The full amount of $16,543.34 was booked to account 8830-2-9860-69-5010-9202, which audit was able to verify to the detail GL.

The full $51,537.93 LUC invoice amount was booked to GSE as all charges were specifically for the Company. The amount was booked to the following GL accounts which were verified without exception to the detail GL.

8830-2-9850-69-5010-9201	A&G Salaries - Operations LU Headoffice	$ 2,758.45
8830-2-9865-69-5130-9215	Office Supplies & Exp. - Customer Svc. LU OH	$ 28.03
8830-2-9865-69-5010-9201	A&G Salaries - Customer Service LU Headoffice	$ 2,036.11
8830-2-9865-69-5250-9030	Customer Records & Collections Expenses	$ 27,486.47
8830-2-9865-69-5250-9030	Customer Records & Collections Expenses	$ 18,324.42
8830-2-9835-69-5010-9201	A&G Salaries LUC Energy procurement	$ 904.45
		$ 51,537.93

East Region employees' pay and payroll taxes are paid by LUSC. These costs are allocated to NH via indirect expense.

Temporary Employees

Granite State Electric employed temporary employees through Balance Professional and Staff Hunters during 2018. A total of $170,652 was paid to Balance Professionals and $25,034 was paid to Staff Hunters resulting in a total of $195,686 being paid for temporary employees. The total was expensed to the following ten general ledger accounts:

8830-2-0000-10-1380-1630	Stores Expense Undistributed	$ 2,786
8830-2-0000-10-1618-1070	Construction Work In Progress	$ 123,063
8830-2-0000-10-1655-1081	RWIP Reclass	$ 2,684
8830-2-0000-10-1930-1825	Storm Costs	$ 1,888
8830-2-9810-69-5200-9230	Outsided Services-HR	$ 5,486
8830-2-9820-69-5130-9210	Office Supplies - Finance and Admin	$ 7,332
8830-2-9820-69-5200-9230	Outsided Services - Finance and Admin	$ 47,098
8830-2-9825-51-5435-5880	Misc Distribution Expense	$ 4,900
8830-2-9851-51-5415-5840	Underground Line Expenses	$ 450
		$ 195,686

Audit reviewed an invoice from each Balance Staffing and Staff Hunters. The Balance Staffing invoice was from May 2018 and noted five temporary employees, the hours, pay rate, bill rate and total amount. Each employee's time sheet was attached to the invoice. The pay was allocated to the appropriate company based on work performed. A total of $1,591.76 was allocated to GSE. Allocation percentages were 100%, 70%, and 35%. Audit was able to verify the allocated amounts to the general ledger without exception.

The Staff Hunters invoice from July 2018 in the amount of $3,600 was reviewed. $674.28 or 19% of the invoice was allocated to GSE. No supporting detail of the charges was provided. Audit was able to verify the amount to the general ledger without exception.

GSE previously noted that the allocation percentages *"were determined by the contracted employees based on the actual time spent on tasks for specific departments".*

End of Year Accruals

Payroll

Audit received the payroll accruals booked for weekly and bi-weekly payroll for the days worked in December 2018 but not paid until January 2019. As the final pay in 2018 was for the period ending 12/22/18, the payroll accrual was for the period of 12/23/18 through 12/31/18.

An Excel spreadsheet provided by Liberty shows the total GSE and ENG payroll accrual for weekly and bi-weekly employees to be $620,106 based on actual hours worked. Liberty provided the supporting data, which contained the payroll information of each employee for the nine days accrued. Two pivot tables of the data were provided; one breaks the accrual amount down by day and the second breaks the accrual amount down by job.

Out of the $620,106 NH payroll accrual, $207,610 was allocated to GSE. $97,358 was directly allocated through payroll and an additional $110,252 was allocated through the Payroll Clearing STAT account. Audit verified both the direct allocated payroll and the clearing account accrual to the general ledger without exception.

The payroll accrual entries were reversed on January 1, 2019

Vacation

A total of $54,965 was accrued for vacation at the end of 2018. The vacation accrual amount is calculated using actual numbers. The vacation hours that each employee has available as of 12/31/18 were multiplied by their hourly rate to determine the accrual amount.

Audit reviewed the spreadsheet used to calculate the accrual amount. Listed by employee, the spreadsheet notes the total vacation days given for the year, less days used, resulting in the amount of days to be accrued. The days are converted to hours, based on an 8-hour day, and then multiplied by the employee's hourly rate. The spreadsheet contained a pivot table noting the dollar amounts allocated to each GL account for the accrual. Audit verified these amounts to the detail general ledger without exception. The entries were not reversed on January 1, 2019 as vacation accruals are not reversed.

Employee Benefits

Audit requested a listing of all payments made for employee benefits such as health, dental, retirement and others. GSE provided a listing of all group benefits journal entries. Because all employees are employed by Liberty Utilities Service Group, the full amount of the benefits is expensed to company 8810. A 30/70 allocation is done and 30% of the charges are allocated to 8830.

Audit reviewed the Liberty Utilities, 8810, general ledger employee benefits entries from January 2018. Audit recalculated 30% of each entry and tied the amount to the following GSE 8830 general ledger account entries:

8830-2-9810-69-5040-4080	Social Security Taxes	$	46,826.61
8830-2-9810-69-5044-9260	Group Benefits	$	249.23
8830-2-9810-69-5041-4080	Federal Unemployment Taxes	$	3,694.55
8830-2-9810-69-5041-4082	State Unemployment Taxes	$	9,327.48
8830-2-9810-69-5042-4080	Medicare	$	10,951.38
8830-2-9810-69-5043-9260	Employee Pension & Benefits - 401K	$	3,568.63
8830-2-9810-69-5043-9262	ESPP Expense	$	728.69
8830-2-9810-69-5043-9263	Opt-Out Expense	$	946.12
8830-2-9810-69-5043-9269	401K Match	$	95,431.19
8830-2-9810-69-5044-9260	Group Benefits	$	143,150.34

No exception was noted with the allocation of the employee benefits to GSE's general ledger.

Per the IBEW union contract, pages 39 and 40, employees who do not meet a certain criteria (age plus years of service) were to be moved from the Liberty Energy Utilities Corp Retirement Plan for Union Employees to the Liberty Utilities Cash Balance Pension Plan. This was effective January 1, 2016. Employees who are under the age of 55 as of December 31, 2015 and were moved to the new pension plan were to have the Company make annual deposits to their 401K plan at the end of each calendar year for a total of 10 years. Employees who were over 55 and converted, the Company is to make annual deposits until the employee reached the age of 65.

Per the USW union contract, page 36, employees who do not meet that same criteria are also being moved from the Retirement Plan to the Pension Plan effective January 1, 2017. Annual deposits for the USW employees were to begin at the end of 2017.

The 12/30/2016 payment in the amount of $64,311 and the 12/29/2017 payment of $60,468 matched the IBEW union contract without exception. In 2018, payments were made in both January and December in the amounts of $228,707 and $281,750, respectively. The January 2018 payment was the first annual payment to USW that was to be made in December 2017. The $228,707 payment was verified to the USW contract. The December payment was for both the IBEW and USW 2018 annual payments.

Based on the union contracts Audit would expect the December 2018 payment to equal or be less (if employees exceed the age of 65) than the 2017 payment amount. The $281,750 payment was $7,425 less than the 2018 payment.

Audit reviewed the 8810 journal entry booking the annual payments. The annual payments were cleared from the 8810 account and allocated to 8830 through the payroll benefits and taxes clearing journal entry. The union payment amounts were added to the 401K Match amount for the month and allocated to GSE using the 70/30 split. Audit was able to verify the union transition payment amounts were included in the 401K Match amount to be distributed. No exception was noted.

Retirement Plan

Audit requested a listing of payments that were made in 2018 to fund the retirement plan. GSE provided a summary of pension contributions, which shows the NH total being $431,500 each quarter. GSE's portion is $124,000 or 29% of the NH total. The summary of pension contributions also shows quarterly national cash balance amounts in which GSE's portion is $113,700 for the first quarter, $110,500 for the second quarter and $112,100 for the third and fourth quarters.

Audit reviewed in detail the general ledger account 8830-2-0000-20-2930-2285, Long Term Pension Obligations, with a beginning balance of ($8,257,550) and an ending balance of ($8,529,387.84). Audit was able to verify the April, July, and October NH allocations of $124,000 without exception. The GL shows the December allocation as $129,450, which represents 30% of the quarterly NH payment. The GL also shows the national cash balance quarterly payments of $113,700 for April, $110,500 for July and October, and $112,100 for December. The October pension contribution amount should have been booked as $112,100. Per GSE "*As part of the 2018 YE closing, the Pension accounts were trued-up to the actuarial reports and adjustments to the GL were recorded.*" The correcting journal entry was provided showing an adjustment of $3,850 ($5,450 for the NH allocation and $1,600 for the national cash balance allocation). No exceptions were noted.

Other activity within the account was a year-end credit true-up in the amount of $1,315,758, recurring debit and credit amortization entries, and account true-ups.

Incentive Plan

In the filing requirements, beginning on Bates page I-145, are the details of all officer and executive incentive plans. Additional incentive plan information was provided to Staff as Data Request 3-15. Included in this information was a breakdown of bonus program expenses for the years 2016 through 2018.

A total of $528,944.39 was expensed in 2018 for short term incentive bonuses. The breakdown provided in DR 3-15 showed the amount expensed and to which general ledger account they were allocated. A total of fifty accounts received allocation of bonus expenses. Audit randomly selected two accounts and verified the totals to the GL.

Both accounts received accrual amounts that totaled to the expense amount listed on the spreadsheet breaking down the bonus expenses. No exceptions were noted.

A total of $98,498.12 was booked to GL account 8830-2-9810-69-7030-9200 for the long term incentive plan. Audit was able to verify that amount to the detail GL without exception.

Affiliates also charged bonus expenses to GSE during 2018 in the amount of $511,231.38. $359,662.55 was charged for the short term plan and $151,568.83 for the long term plan. These amounts were booked to eight GSE GL accounts. As the amounts allocated to

GSE from affiliates are done as a lump sum on a monthly basis, audit was unable to determine the amounts charged to each account specifically for affiliate bonuses.

Severance Pay

Liberty provided an original response to OCA Data Request 1-29 noting $52,224.83 was paid for severance during 2018. A revised response to OCA Data Request 1-29 was submitted revising the total severance paid to $70,985.70. Audit requested documentation showing the GL accounts to which the $70,985.70 in severance was booked. In GSE's response to the audit request, it was noted that the revised response to the data request was incorrect and that the actual amount of severance paid in 2018 was $57,757.20. **Audit Issue #23**

The following amounts were booked to the noted GL accounts in 2018 for severance paid:

8830-2-9830-69-5010-9200	$ 2,362.50
8830-2-9851-56-5010-5932	$23,076.96
8830-2-9854-51-5010-5800	$ 9,335.82
8830-2-9865-69-5010-9030	$22,981.92
	$57,757.20

Audit was unable to verify the amounts to the GL detail as the severance is paid through payroll and not as a separate line item.

Payroll Taxes

The payroll taxes were verified to the general ledger and Filing Schedule RR-2-1 Line 108 Payroll Tax:

8830-2-9810-69-5040-4080 Social Security Taxes	$	576,032
8830-2-9810-69-5041-4080 Federal Unemployment taxes	$	4,913
8830-2-9810-69-5041-4082 State Unemployment Tax	$	18,893
8830-2-9810-69-5042-4080 Medicare	$	140,683
	$	740,520

Audit reviewed the four weekly and two bi-weekly January 2018 payroll registers. Every pay period the payroll taxes and benefits are booked to 8810 and cleared at the end of the month. Audit summed the six payroll registers and tied the employer social security, employer medicare, federal unemployment tax and NH unemployment tax amounts to the 8810 account.

The monthly 8810 tax amounts are then allocated to 8830 and 8840 using the 70/30 split. Audit verified that the Medicare, unemployment taxes and social security amounts charged to 8830 was 30% of the total. The 30% allocation for January was verified to the general ledger without exception.

GSE provided the Liberty Utilities Service Corp Ceridian tax account reconciliation for all four quarters. This file contains the quarterly tax summary, summary of deposits and filings, and the state withholding and unemployment taxes. Also provided was a W-2 Management Report from Dayforce. Audit summed the FIT total wages, taxable social security wages, and taxable medicare wages from the four quarterly reports and tied them to the Dayforce YTD report without exception. These wages are for the whole service corporation and not specific to NH. Audit was unable to verify the NH specific tax amounts to the quarterly filing or W-2 Management Report.

GSE provided the New Hampshire Unemployment Summary of Deposits and Filings for all four quarters. Audit reviewed the fourth quarter filing (October 1-December 31, 2018) in detail. Audit was able to verify the unemployment tax amount from the filing to the NH payroll 8810 journal entry detail for the weeks where only weekly payroll was paid. The weeks that both weekly and bi-weekly payroll is paid, was not able to be verified by Audit. The four quarterly filings total $67,078 in state unemployment taxes due. 30% of this amount would be $20,124. Audit was unable to verify the 4082 GL account balance of $18,893 to the unemployment filings; however, as the GL amount is less than the tax filings amount, no issue is present.

Operations and Maintenance Expenses $78,294,707

Account string information, per the filing Puc 1604.01(a)(9)(b) pages 1-22, reflects:

Company GSE	US Dollar	Site/Dept	Class	Natural Account	Sub-account
8830-	2-	XXXX-	XX-	XXXX-	XXXX

The first three digits of the final sub-account represent the FERC Uniform System of Accounts account number.

Audit verified the reported Operations and Maintenance expense total on the filing schedule RR 2-1, line 98 to the FERC Form 1 and to the general ledger, unless otherwise indicated. For the test year, overall operations and maintenance expenses increased by 12% over the 2017 ending balances.

FERC Form 1 reflects the following relating to Power Production and Transmission expenses:

		12/31/2017	12/31/2018	% change
555	Purchased Power	$ 31,890,632	$ 38,107,739	19%
	Total Power Production Expense	$ 31,890,632	$ 38,107,739	
561.4	Scheduling, System Control and Dispatch Services	$ 614,141	$ 592,856	-3%
563	Overhead Line Expenses	$ 234	$ 822	251%
565	Transmission of Electricity by Others	$ 21,133,721	$ 21,757,093	3%
570	Maintenance of Station Equipment	$ 5,715	$ 4,103	-28%
	Total Transmission Expenses	$ 21,753,811	$ 22,354,874	3%

Audit verified the reported **flow-through expense accounts on the filing RR-2-1** to the 2018 detailed general ledger. Specifically:

Purchased Power – Account 555

8830-2-0000-52-5455-5551 Purchased Power-Variable		$ 45,040
8830-2-0000-52-5455-5552 Purchased Power-Fixed & SO		$38,333,751
	Flow-through total on RR-2-1 page 2 of 5 Bates II-100 line 39	$38,378,791

The FERC total for account 555 includes the PP-NEP-Access Charge-Elim account below, which was included on the filing within the RR-2-1 page 2 of 5 Bates II-100 line 44 total, shown below.

Transmission Expenses O&M

8830-2-0000-51-5440-5614 Sched, sys control & dispatch serv exp		$ 592,856
8830-2-0000-51-5441-5650 Transmission of electricity		$21,757,093
8830-2-0000-52-5455-5553 PP-NEP-Access Charge-Elim		$ (271,053)
	Flow-through total on RR-2-1 page 2 of 5 Bates II-100 line 44	$22,078,896

The 8830-2-0000-52-5455-5553 account reflected twelve entries relating to CTC, Stranded Cost Revenue. Because the accounts above were identified as flow through items, Audit reviewed the account activity, but did not perform further testwork. One invoice from the ISO-NE, posted on 10/15,2018 in the amount of $59,927.39 to the -5440-5614 account was reviewed. The total invoice was $1,728,772.91 and spread among accounts:

8830-2-0000-52-5455-5552	$ (54,857.54)	Purchase Power
8830-2-0000-20-2142-2423	$ (58,489.33)	Curr & Accr Liab CL&M
8830-2-0000-51-5440-5614	$ 59,927.39	Scheduling
8830-2-0000-51-5441-5650	$1,782,192.39	Transmission by Others
Total invoice	$1,728,772.91	

Transmission of Electricity by Others, account -5441-5650 includes activity previously reflected in account 8830-2-0000-51-5442-5651, Elec Rev Wheeling-Elim. Liberty determined that the combination of the two accounts into one was reasonable, as both the ISO and NEP charges are for local and regional transmission service.

The FERC #563 $822 and #570 $4,103 are *combined on the filing*. Refer to RR-2-1 page 2 of 5 line 47, **reflected as account #570** in the amount of $4,926. Audit did verify the totals to accounts:

8830-2-0000-51-5010-5630	Overhead Lines-Labor	$ -0-
8830-2-0000-51-5410-5630	Overhead Lines	$ -0-
8830-2-9851-51-5010-5630	Overhead Lines	$ 822
8830-2-0000-56-5010-5701	Trans Maint-Substation-Trouble-Labor	$ -0-
8830-2-9851-56-5010-5701	Trans Maint Substation Trouble	$4,104
		$4,926

These expense accounts should also be part of the flow-through, as they are part of the Transmission portion of the FERC Form 1. **Audit Issue #18**

The Overhead Lines-Labor account -5630 reflected minimal debit payroll accruals and credit reversals summing to $284. The activity was offset to account 8810-2-0000-20-2110-

2420 Misc. Accrued Liabilities. The 8810 designation is the Liberty NH company code. 8810 functions as the accounts payable and payroll. Invoices are processed in three steps:

1. Post the Invoice:
   Debit 8830-Granite State Expense account
   Credit 8810-2320 Liberty NH Accounts Payable
2. Create the Intercompany Transaction:
   Debit 8810-2605 Due To/From Granite State
   Credit 8830-2606 Due to Liberty Energy NH
3. When Invoice is Paid
   Debit 8810-2320 Liberty NH Accounts Payable
   Credit 8810-1310 Liberty NH Cash

Audit reviewed the debit and credit activity in the 8830-2-0000-51-5040-5630 Overhead Lines account of $591,659. Audit selected one debit entry in the amount of $119,071 relating to an invoice from Asplundh. The $119,071 was part of a total invoice from Asplundh in the amount of $140,424.52 for the week ending 12/31/2017. Audit questioned the lack of an accrual and reversal, and was provided with details relating to an accrual and reversal in account 8830-2-0000-56-5210-5932, Maint of overhead lines-Veg Mgmt. Audit traced the accounting entries on February 12, 2018; February 28; March 1; March 31; April 1; and finally April 30 to the 8830-2-0000-56-5210-5932, Maint of overhead lines-Veg Mgmt account. All activity in 8830-2-9851-51-5010-5630 Overhead Lines was transferred to account 8830-2-0000-56-5210-5932, Maint of Overhead lines-Veg Mgmt on April 30, 2018.

The <u>8830-2-9851-51-5010-5630</u> account activity reflected payroll entries for the weeks of April 4 – April 14; June 3 – June 9; November 25 – December 1 and one bonus accrual true-up which was booked for $18 on June 30, 2018. Audit requested the supporting documentation relating to the <u>bonus accrual true-up</u>. The Company provided "*[b]ased off of the attached back-up, the true-up was reconciled based off updated bonus accrual numbers provided by corporate and checked against what was budgeted for the year. The spread was done by running a YTD labor file and allocating based on the numbers in that file. The transaction consists of the monthly accrual as well as the true-up, they are not differentiated. The amount booked is the net of the two*." The budgeted payroll for 2018 was $14,065,888 with 8% budgeted bonus of $1,080,693. As of 6/21/2018 actual GSE payroll was $5,290,113.59 with a June bonus accrual entry calculated to be $144,668.23. The June entry was allocated among O&M expense accounts in the following entities:

8830-Granite State Electric	$ 47,691.37
8840-EnergyNorth	$ 92,046.28
8843-EnergyNorth-Keene	<u>$ 4,930.58</u>
June bonus accrual and true-up	$144,668.23

Account <u>8830-2-0000-56-5010-5701</u> reflected payroll and bonus accruals from March through September. On September 30, the $4,053 was reclassified to account 8830-2-9851-56-5010-5701. One additional entry in that account in the amount of $51 was posted 6/30/2018 as a bonus accrual true-up, resulting in the test year balance of $4,104.

<u>FERC Form 1 reflects an overall increase in Distribution expenses of 24%.</u>

			12/31/2017		12/31/2018	% change
580	Operation Supervision and Engineering	$	1,161,342	$	1,499,505	29%
581	Load Dispatching	$	769,356	$	558,385	-27%
582	Station Expenses	$	168,728	$	198,773	18%
583	Overhead Line Expenses	$	656,029	$	712,491	9%
584	Underground Line Expenses	$	219,934	$	87,249	-60%
585	Street Lighting and Signal System Expenses	$	14,177	$	88,997	528%
586	Meter Expenses	$	268,445	$	234,938	-12%
587	Customer Installation Expenses	$	203,346	$	149,678	-26%
588	Miscellaneous Expenses	$	892,632	$	1,249,771	40%
	Total Distribution Operation Expenses	$	4,353,989	$	4,779,787	10%
590	Maintenance Supervision and Engineering	$	39,153	$	24,326	-38%
591	Maintenance of Structures	$	50,152	$	72,857	45%
592	Maintenance of Station Equipment	$	117,334	$	156,145	33%
593	Maintenance of Overhead Lines	$	1,978,188	$	3,081,104	56%
594	Maintenance of Underground Lines	$	66,321	$	71,684	8%
595	Maintenance of Line Transformers	$	34,111	$	49,039	44%
596	Maintenance of Street Lighting and Signal Systems	$	99,656	$	145,925	46%
597	Maintenance of Meters	$	80,092	$	69,893	-13%
598	Maintenance of Miscellaneous Distribution Plant	$	82,599	$	116,392	41%
	Total Distribution Maintenance Expenses	$	2,547,606	$	3,787,365	49%
	Total Distribution Expenses	$	6,901,595	$	8,567,152	24%

<u>Account #580</u>, Operation Supervision and Engineering $1,499,505 was verified to:

8830-2-0000-51-5010-5800	Operation supervision and engineering-Labour	$ -0-
8830-2-0000-51-5435-5800	Operation Supervision & Engineering	$ -0-
8830-2-9850-51-5010-5800	Operations supervision and Engineering Labour	$ 2,371
8830-2-9851-51-5010-5800	Operations Supervision & Engineering	$ 812,082
8830-2-9851-51-5435-5800	Operation Supervision & Engineering	$ 6,976
8830-2-9853-51-5010-5800	Operations Supervision & Engineering	$ 276,539
8830-2-9854-51-5010-5800	Operation Supervision & Engineering	$ 322,321
8830-2-9854-51-5435-5800	Operation – Engineering	$ 79,215
Total Account #580 agrees with FERC Form 1 and the filing RR-2-1 page 2 of 5		$1,499,505

The expense total for 2018 represents a 29% increase over the 2017 expense total. Audit reviewed four entries, which posted to <u>8830-2-0000-51-5435-5800</u>:

1. ControlPoint Technologies, Inc. net invoice for the period ending 12/23/2017 in the amount of $10,812.48 was for services out of the test year. The invoice was dated 12/31/2017 and was approved for payment on 2/7/2018. Because 16 of the 17 jobs over which the invoice was spread were below $1,000, accruals were not booked. The one job which exceeded the $1,000 accrual threshold did not have an accrual booked. **Audit Issue #11**

2. Another ControlPoint Technologies invoice, for services associated with the Pelham feeders, reclosers, and capacity placement for the period ending 12/23/2017 in the amount of $5,807.50 was included in the test year. No accrual had been booked. **Audit Issue #11**
3. A third ControlPoint Technologies invoice was for $7,315.25 for the month ending 1/20/2018.

<u>8830-2-9851-51-5010-5800</u>, Operations Supervision & Engineering includes $8,940 in vacation accrual at 12/31/2018.

<u>8830-2-9851-51-5435-5800</u>, Operation Supervision & Engineering includes $1,630.91 as December fleet allocation. Twenty-four additional debit entries in the account, beginning in November 2018, were reclassifications.

<u>8830-2-9853-51-5010-5800</u>, Operations Supervision & Engineering $11,260 in two vacation accrual entries at 12/31/2018. 206 other entries represented payroll, bonus accrual, payroll clearing, and $3,528 payroll from 12/24/2017 – 1/6/2018.

<u>8830-2-9854-51-5010-5800</u>, Operation Supervision & Engineering includes $8,473 of vacation accrual at 12/31/2018.

<u>Account #581</u>, Load Dispatching $558,385 was verified to:

8830-2-0000-51-5010-5810	Load dispatching – Labor	$ -0-
8830-2-9851-51-5010-5810	Load Dispatching	$ 865
8830-2-9851-51-5400-5810	Load Dispatching	$142,136
8830-2-9853-51-5010-5810	Load Dispatching	$410,263
8830-2-9853-51-5400-5810	Load Dispatching	$ 5,121
Total Account #581 agrees with FERC Form 1 and the filing RR-2-1 page 2 of 5		$558,385

Account 581 for the year ended 12/31/2018 reflected a 27% decrease over calendar year 12/31/2017.

The -<u>0000-51-5010-5810</u> Labor account reflected $120,923 of payroll activity that was reclassified to account 8830-2-9853-51-5010-5810, Load Dispatching on 9/30/2018. Of the original account, $20,067 was labor relating to December 24, 2017 – January 6, 2018. On January 1, 2018 there was an accrual reversal of $(9,972).

The <u>-9851-51-5010-5810</u> Load Dispatching $865 represents three weeks' payroll and the bonus accrual true-up.

The -9851-51-5400-5810 Load Dispatching $142,136 represents

Fleet spread	$ 21,149
Maintenance Amortization	$120,687
P-card Purchases	$ 300
	$142,136

Audit requested clarification of how the fleet spread is calculated, as the process was changed in 2018. In previous years, transportation costs charged were allocated to open jobs based on the total labor charged to those jobs, as employees' hours worked correlated to vehicle in use hours. In the 2018 storm year audit, there were zero transportation charges applied to the storm fund. Audit requested clarification of the lack of transportation charges, in light of the DE 19-064, 2018 test year rate case. The Company responded: "*The transportation costs used to be directly charged to a job through allocation. That process has changed and transportation is now allocated to all jobs through overheads so you will not see any transportation charges directly charged to storms anymore*." The Company further indicated that capitalized fleet burden represents the monthly depreciation expense of grouped asset 8830-3920, is allocated pro-rata, and is the monthly depreciation multiplied by quarterly fleet depreciation rate capitalized by CWIP job 30YY-BRD. The clarification provided was fleet spread (maintenance, fuel, etc.) follows associated labor for posting to expense accounts, but fleet burden (depreciation expense) becomes part of the BRD overhead applied to CWIP jobs. See **Audit Issue #3**

Audit requested clarification of the maintenance amortization and was provided with photocopies of invoices from Telvent USA/Schneider Electric for annual maintenance contracts for SCADA, extended solutions maintenance, and actual maintenance of software. Overall the calendar year invoices sum to $475,290. GSE's allocation of the annual expense, $120,687 was debited to the Load Dispatching in equal monthly installments, offset to Prepaids account #8830-2-0000-10-1240-1650.

The -9853-51-5010-5810 Load Dispatching $410,263 represents payroll and bonus accruals and true-up from March 2018 through December 2018.

The -9853-51-5400-5810 $5,121 represents miscellaneous purchases, with Telvent DTN, LLC the majority $4,612. The remaining $509 were small purchases for which the employees were reimbursed.

Account #582, Station Expenses $198,773 per FERC Form 1. Filing reflects $129,660 which was verified to the following accounts:

8830-2-0000-51-5010-5820	Station expenses – Labor	$ -0-
8830-2-0000-51-5405-5820	Station expenses	$ (910)
8830-2-9851-51-5010-5820	Station Expenses	$ 82,721
8830-2-9851-51-5405-5820	Station Expenses	$ 47,849
Total Account #582 agrees with the filing RR-2-1 page 2 of 5		$129,660
Total Account #582 per FERC Form 1		$198,773
GL and Filing minus FERC		$ (69,113) see account 598

See Account **#598** in which the FERC Form 1 balance is understated by $69,113. The straight FERC Form 1 comparison of 2017 and 2018 year-end figures reflects an 18% increase. Audit cannot determine from where the variance came, as none of the sub-accounts in either #582 or #598 sum to the $69,113, or any derivation of that variance.

8830-2-0000-51-5010-5820, Station expenses – Labor $-0- reflected six entries, then one to reclassify the $17 balance to the 8830-2-9851-51-5010-5820 Station Expenses account.

8830-2-0000-51-5405-5820, Station expenses $(910) was one credit entry to adjust a purchase order.

8830-2-9851-51-5010-5820, Station Expense $82,721 included $76 of vacation accrual at year-end and weekly payroll entries. Bonus accruals were also noted.

8830-2-9851-51-5405-5820, Station Expenses $47,849 was comprised of:

$ 214	Employees' reimbursements
$12,400	Avedisian Landscaping & Irrigation
$ 1,829	AVO Multiamp Corporation D/B/A Megger
$ 8,000	Chippers
$ 363	Graybar Electric Company, Inc.
$ 543	Hastings Fiber Glass Products
$ 260	J. Lawrence Hall
$ 2,211	Joe Gauci Landscaping, LLC
$ 432	p-cards
$10,897	Landmark Property Maintenance
$ 2,245	Normand R Beaudry Construction
$ 3,500	Transgard Systems, Inc.
$ 7,692	Fleet spread
$ (2,737)	AP accruals
$47,849	

Chippers was paid $8,000 for herbicide treatment of rights-of-way at various electric substations in Charlestown, Enfield, Hanover, Lebanon, and Salem.

Transgard Systems, Inc. billed Liberty $3,500 in May 2018 for the installation of fence panels, stands and electrical connections between the panels, and the installation of a new control center to the existing entryway. **Audit Issue #12**

Account #583, Overhead Line Expenses $712,491 per the FERC Form 1 and the filing schedule RR-2-1 was verified to the following accounts:

8830-2-0000-51-5010-5830	Overhead line expenses – Labor	$ 328
8830-2-0000-51-5410-5830	Overhead line expenses	$ 34,716
8830-2-9851-51-5010-5830	Overhead Line Expenses	$402,097
8830-2-9851-51-5410-5830	Overhead Line Expenses	$275,350
Total Account #583 agrees with the filing RR-2-1 page 2 of 5		$712,491

Overall, account 583 reflects a 9% increase in expenses for year-end 2018 compared to year-end 2017.

Account 8830-2-0000-51-5010-5830 $328 contains only two weeks of payroll and bonus accrual, with a bonus accrual true-up included.

8830-2-0000-51-5410-5830 $34,716 reflected inventory adjustments, clearing entries, and minor purchases from outside vendors.

Two clearing entries were reviewed. Debits to this account were offset to Stores Expense Undistributed #8830-2-0000-10-1380-1630. Supporting documentation for the entries was provided as requested.

8830-2-9851-51-5010-5830 $402,097 reflected four entries summing to $485 for miscellaneous purchases from outside vendors. $645 payroll relating to 2017 was offset with an accrual reversal of $730 at the beginning of the year. The remaining $401,656 was noted to be 1,623 payroll related entries.

8830-2-9851-51-5410-5830, $275,350. Audit reviewed the activity and noted the following:

22 entries in the amount of $325 each (boot allowance)	$ 7,150
12 entries in the amount of $200 each (clothing allowance)	$ 2,400
15 entries for other employee expenses/reimbursements	$ 5,847
Net accruals and reversals	$ 2,718
Transaction entries	$ 12,685
Expense jobs	$ 8,019
Fleet spread	$ 25,046
Reclassification entries	$ 18,394
Allocation burden entries	$ 146
47 vendors were paid	$192,945
	$275,350

Regarding the $25,046 Fleet Spread, Audit was told that the maintenance and fuel charges are spread proportionately based on labor dollars to eligible expense accounts. This account reflected no labor dollars specifically, but due to the thousands of entries identified above, a conclusion regarding the appropriateness of the Fleet cannot be determined.

Three entries of $4,500 each, paid to Cen-Com were reviewed in detail to invoices. Each represented a monthly antenna site fee in Plainfield, Tilton, Uncanoonuc, Windham, and Springfield. Each invoice was due on the 25th for the following month. Two of the entries were supported with invoice due dates in 2017. The November 2017 due date was for the month of December 2017 and is out of the test year. The December 2017 due date, which should have been accrued, was for the month of January 2018. The third invoice was due in March 2018 for the month of April. While the documentation does not support the test year, Audit verified that there were twelve payments to Cen-Com, indicating that the $4,500 monthly payment is ongoing. The payments were posted among:

8830-2-9851-51-5410-5830 Overhead Lines Expense 5*$4,500	$22,500
8830-2-9851-51-5435-5880 Misc. Distribution Expense 1*$4,500	$ 4,500
8830-2-9851-56-5210-5920 Maint of Station Equip 3*$4,500	$13,500
8830-2-9853-69-5131-9213 Communication 3*$4,500	$13,500
Total paid to Cen-Com	$54,000

Hydron Incorporated	$23,554
Kearsarge Telephone Company	$ 2,500
Ready Refresh by Nestle	$ 1,626
TCI of NY LLC	$ 8,899

Hydron, Inc. is an equipment supply company providing rigging, fall protection, live line tools, testers and meters, etc. The total included in this account is the sum of 26 entries over the test year, averaging $1,437.

The entry paid to Kearsarge Telephone Company on 6/19/2018 was the only payment made to this vendor during the test year, and as such, appears to be non-recurring. **Audit Issue #13**

Ready Refresh is the vendor providing bottled water to facilities in GSE's service territory.

TCI of NY, LLC is a waste disposal company specializing in transformers and other oil filled electrical equipment. The total in the account represents three entries.

<u>Account #584</u> Underground Lines $87,249 per Schedule RR-2-1 page 2 of 5 was verified to the general ledger and to the FERC Form 1, and is the sum of the general ledger accounts:

8830-2-9851-51-5010-5840 Underground Line Expense	$60,767
8830-2-9851-51-5415-5840 Underground Line Expense	<u>$26,482</u>
	$87,249

Site code 9851 indicates Operations-Electric. Code 51 also indicates Operations. Code 5010 indicates Labor, and 5415 Underground lines expenses. Audit reviewed both accounts' activity. The -5010-5840 (Labor) expense account showed 128 journal entries. Weekly payroll entries, reclassifications, accruals and reversals, and bonus accruals and true-ups were noted. The activity in the -5415-5840 account reflected fleet entries, corrections to fleet entries, allocation of burdens, specific job transaction entries, and reclassifications. Detailed testing of these specific accounts was not conducted.

<u>Account #585</u> Street Lighting and Signal Expenses $88,997 per the FERC Form 1 and the filing schedule RR-2-1 was verified to the following accounts:

8830-2-9851-51-5010-5850	Street Lighting & Signal Systems	$50,427
8830-2-9851-51-5420-5850	Street Lighting & Signal Systems	<u>$38,570</u>
		$88,997

As above, the 5010 coding above represents Labor. Audit reviewed the account activity and noted weekly payroll, bi-annual bonus accrual, and reclassification entries. There were 106 journal entries.

The -5420 coding represents maintenance of the street lighting and signal systems. There were 87 journal entries reviewed, including fleet spread, specific job transaction entries, revisions of fleet spreads, and reclassifications.

Account #586 Meter Expenses $234,938 per the FERC Form 1 and the filing schedule RR-2-1 was verified to the following accounts:

8830-2-9851-51-5010-5860	Meter Expenses	$173,550 Labor
8830-2-9851-51-5425-5860	Meter Expenses	$ 61,938 Expenses
		$234,938

The -5010 labor account has 529 journal entries consisting of weekly payroll entries tied to specific jobs, payroll accruals, June bonus accrual, and a vacation accrual at year end of $3,775.52. Three of the entries, summing to $151,709.15, were credited to the meter expense account and debited to account 8830-2-0000-10-1618-1070, Construction Work In Progress. The description of the entries was "Precap Meter Installation". Refer to the Plant section of this report regarding the pre-capitalization policy.

The -5425 expense account has 70 journal entries consisting of reimbursements to employees, payments for p-card purchases, payments to vendors, fleet spreads, reclassifications, and accruals and reversals.

Account #587 Customer Installations Expenses $149,678 per the FERC Form 1 agrees with the filing schedule RR-2-1. However, the general ledger totals $158,947:

8830-2-0000-51-5010-5870	Customer installations expenses – Labor	$ -0-
8830-2-0000-51-5430-5870	Customer installations expenses	$ 22,769
8830-2-9851-51-5010-5870	Customer Installation Expenses	$ 71,139
8830-2-9851-51-5430-5870	Customer Installation Exp	$ 65,039
	Total General Ledger 587	$158,947

There were only three small dollar entries in the -0000-51-5010-5870 labor account. On 9/30/2018 the balance of $184.21 was credited to this account and debited to 8830-2-9851-51-5010-5870.

Activity in the 0000-51-5430-5870 account represents payments to several vendors and includes 691 journal entries. Specifically:

45 payments to ControlPoint Technologies, Inc. sum to	$ 10,387.50
29 payments to E. Brown Electric sum to	$ 24,672.34
01 payment to Hunter North Associates	$ 380.00
01 payment to two employees sum to	$ 179.37
37 payments to Total Climate Control, Inc. sum to	$ 20,776.00
03 payments to TRC Companies sum to	$ 1,303.35
01 payment to the US Post Office	$ 250.00
03 payments to Vaughn Thermal Corporation sum to	$ 1,868.76
75 payments to Welch Brothers Company, Inc. sum to	$ 27,997.50
27 accruals/reversals/reclassification entries sum to	$(65,045.02)
	$ 22,769.80

Individual invoice testing was not conducted.

The -9851-51-5010-5870 Customer Installation Expenses figure of $71,139 includes 691 journal entries, the majority of which reflect weekly payroll tied to specific job codes.

The -9851-51-5430-5870 expense account reflected eight journal entries. Seven of the entries represented fleet spreads and adjustments. One entry in the amount of $59,687.84 was a reclassification from 8830-2-0000-51-5430-5870.

Account #588 Miscellaneous Expenses $1,249,771 per the FERC Form 1 agrees with the filing schedule RR-2-1 and was traced to the following general ledger accounts:

8830-2-0000-51-5010-5880	Misc. distribution expenses Labor	$ 444	77 entries
8830-2-9850-51-5435-5880	Miscellaneous Distribution expenses	$ 18	1 entry
8830-2-0000-51-5435-5880	Misc. distribution expenses	$ 928	13 entries
8830-2-9825-51-5010-5880	Misc. Distribution Labor	$ 20,971	91 entries
8830-2-9825-51-5435-5880	Misc. Distribution Expense	$ 460,780	1,097 entries
8830-2-9851-51-5010-5880	Misc. Distribution expenses	$ 266,043	944 entries
8830-2-9851-51-5435-5880	Misc. Distribution expenses	$ 448,344	274 entries
8830-2-9854-51-5435-5880	Misc. Distribution Expense	$ 39,381	54 entries
8830-2-9853-51-5010-5880	Misc. Distributions Expenses Labor	$ 12,862	30 entries
		$1,249,771	

8830-2-0000-51-5010-5880, Misc. distribution expenses Labor entries reflected weekly payroll, monthly bonus accruals, and payroll accruals and reversals. The activity through September 2018 summed to $31,437.56, which was then credited to this account and debited to 8830-2-9851-51-5010-5880, Misc. Distribution expenses. It appears that the six entries summing to $444 after the reclassification, were posted to the -000-51-5010-5880 account in error, rather than to the -9851 Operations Electric.

The one entry noted in the -9850-51-5435-5880 expense account for $17.99 was an Aramark Uniform and Career Apparel, LLC freight cost. Code 9850 is Operations.

Thirteen entries in the -0000-51-5435-5880 expense account reflect payments to Staples, Benchmark Graphics, Lakeside Environmental Consultants, Tyndale, Aramark Uniform, and Safety Inc. Northeast. Net activity through September 2018, $1,966.94 was reclassified out of this account and into account 8830-2-9851-51-5435-5880. As above, one entry in the amount of $927.61 was posted to the -0000-51-5435-5880, likely in error. Audit requested clarification of Lakeside Environmental, and was informed that the Consultant "*is a contractor for vegetation management. Consulting arborists perform work planning, prescriptive work, for both scheduled maintenance vegetation work (O&M) in addition to vegetation work related to new construction (capital). They also assist with auditing of completed vegetation work, tree caused interruption investigations, review of customer calls and review of trouble/storm related vegetation inspection and subsequent identification and writing up of requested or trouble related work.*"

The activity in the labor account 8830-2-9825-51-5010-5880 $20,971 included job codes 8830-9825-LOND (Londonderry), 8830-9825-SALE (Salem), 8830-9825-CHAR (Charlestown), and 8830-9825-LEBA (Lebanon). Weekly payroll, payroll accruals and reversals were noted.

8830-2-9825-51-5435-5880, Misc. Distribution Expense $460,780, was comprised of a net 1,097 entries. Some (not all) of the specific vendors and journal entries noted were:

9 Madden Road Holdings c/o New Star Properties	10 equal entries sum to	$8,625
April Wilson Cleaning	10 equal entries sum to	$5,500
Right Way Cleaning, LLC	18 entries sum to	$33,624
SteriClean, LLC	3 entries sum to	$6,491
Cintas Clothing	221 entries sum to	$11,576
ARC Mechanical	12 entries sum to	$8,505
Avedisian Landscape and Irrigation	28 entries sum to	$60,135
Groundhog Landscaping	15 entries sum to	$19,135
Landmark Property Maintenance	16 entries sum to	$24,650
Balance Professional	18 entries sum to	$4,900
Brennan Food Vending Services	24 entries sum to	$9,997
Casella Waste Services	57 entries sum to	$16,822
Clean Harbors	3 entries sum to	$8,161
Collins Tree Service, Inc.	4 entries sum to	$7,750
Complete AV, LLC	6 entries sum to	$5,155
Crystal Rock Bottled Water	15 entries sum to	$5,651
Dead River Company	41 entries sum to	$34,125
Gemini Electric d/b/a Power Up Generator	11 entries sum to	$14,114
Gemini Electric	11 entries sum to	$9,611
Genella McDonald d/b/a Stibler Associates, LLC	1 entry	$11,588
J Lawrence Hall	32 entries sum to	$10,669
JP Morgan Chase Bank (p-cards)	31 entries sum to	$15,064
JP Pest Services	49 entries sum to	$3,358
Kamco Supply Corp of Boston	10 entries sum to	$8,474
Miller, Canfield, Paddock and Stone, PLC	2 entries sum to	$1,246
NHCS, LLC	23 entries sum to	$43,684
Normand R. Beaudry Construction	3 entries sum to	$1,660
Otis Elevator	3 entries sum to	$1,359
Overhead Door Company, The	7 entries sum to	$2,346
Overhead Door of Rutland	4 entries sum to	$1,699
Pennichuck Water Works	14 entries sum to	$827
Power Products	3 entries sum to	$2,696
Ready Refresh by Nestle	5 entries sum to	$(40)
R-Squared Office Panels & Furniture, Inc.	8 entries sum to	$8,339
Salem Fire Department	1 entry	$250
Servco Business Products	54 entries sum to	$17,880
Shred It USA, LLC	28 entries sum to	$2,195
Simon Roofing and Sheet Metal Corp.	1 entry	$284
Softchoice Corporation	1 entry	$78

Spike, Inc. d/b/a Olympia Moving and Storage	1 entry	$124
Staples Business Advantage	4 entries sum to	$957
Surveillance Specialties, Ltd. d/b/a Securadyne	18 entries sum to	$11,756
Town of Charlestown, NH	4 entries sum to	$563
Town of Salem, NH	25 entries sum to	$4,505
Tri-State Fire Protection	8 entries sum to	$2,640
Unitil	16 entries sum to	$2,139
WW Grainger	4 entries sum to	$1,672
Accruals and Reversals	147 entries sum to	$(863)
Prepay Rents	5 entries sum to	$863
Reclassify Store Expense Charges	6 entries sum to	$759

One Clean Harbors invoice, $4,309.59 was for pumping out the separator and drains at 9 Lowell Road, Salem on July 17, 2018.

One invoice from Collins Tree Service was for removal of trees, wood, brush, and debris at 9 Lowell Road, Salem on May 3, 2018. The total cost was $4,200. Work at this specific site is likely non-recurring, but Audit understands that work around the Liberty service territory is ongoing.

Two invoices from Gemini Electric were reviewed. One was for installation of 15 new LED fixtures in the lineman garage, and removal of the old fixtures. The cost of $4,652.15 should be considered as a capital item rather than expensed. The other invoice was for installation of LED light fixtures in the main corridor hallway at the facility in West Lebanon. That invoice total is $5,275.29. This invoice should also have been capitalized rather than expensed. Audit understands that the individual components do not meet the $1,000 capitalization threshold. However, the replacements were not done on an individual basis. **Audit Issue #12**

The Stibler entry of $11,588 is part of an overall invoice in the amount of $38,625 for office space design programming, development, test fitting. The invoice was for work from 10/1/2018 – 11/20/2018, and was dated 11/30/2018. A date stamp on the invoice indicates that it was not paid until March 21, 2019. The entry in 8830-2-9825-51-5435-5880, Misc. Distribution Expense is the only entry relating to this entity. Audit determined that 30% of the $38,625 invoice is $11,588 (70% allocated to EnergyNorth). This entry should be considered non-recurring. **Audit Issue #13**

NHCS, LLC entries represent improvements made at various locations. NHCS is New Horizon Construction Services, LLC.

<u>Account #590 Maintenance Supervision and Engineering</u> $24,326 per the FERC Form 1, was verified to the general ledger account 8830-2-9854-56-5010-5990 and to the filing schedule RR-2-1. The account reflects a decrease of 38% over the year ending 12/31/2017.

The activity in the account reflected weekly payroll entries. Based on the 104 journal entries reviewed, monthly accruals were booked January through October at the end of each month. Accrual reversals, posted on the first of the subsequent month, were noted January 1 through November 1. Accrual entries for November and December were not noted. The November accrual entry, which should have been booked, was not reversed, but the result has no impact on the account balance. It appears that the account is understated due to the exclusion of a December 31 accrual, in an undetermined amount. Given the activity, the amount would likely be immaterial.

Account #591 Maintenance of Structures $72,857 per the FERC Form 1 represents a 45% increase over the 2017 year end. The figure was verified to the filing schedule RR-2-1, and to the following general ledger accounts:

8830-2-9851-56-5010-5910	Maint of Structures	$62,028
8830-2-9851-56-5210-5910	Maint of Structures	$10,829
		$72,857

The first account's activity reflected an accrual reversal on January 1, and weekly payroll entries, payroll accruals, and reversals.

The second account reflected fleet spreads, reversals, and adjustments.

Account #592 Maintenance of Station Equipment $156,145 per the FERC Form 1, was verified to the filing schedule RR-2-1 and to the following general ledger accounts:

8830-2-0000-56-5210-5920	Maint of station equipment	$ 384
8830-2-9851-56-5010-5920	Maint of Station Equipment	$ 40,880
8830-2-9851-56-5210-5920	Maint of Station Equipment	$114,881
		$156,145

Overall, the account increased by 33% over the 12/31/2017 balance of $117,334.

Account -000-56-5210-5920 reflected five journal entries. Two were for vegetation management jobs and paid to Asplundh. One was transferred to the -9851-56-5210-5920 account above. The other, $384, remained in the original account. One accrual in the amount of $3,840 was posted 11/30/2018 and reversed 12/1/2018.

Account 9851-56-5010-5920, $40,880 represents labor, and reflected 205 journal entries. The majority of the entries were for weekly payroll. A credit reversing the 12/31/2017 accrual was noted on 1/1/2018. Accruals were not noted for 9/30/2018, nor for 12/31/2018. Bonus accrual and true up in June was noted.

The third account, 9851-56-5210-5920 $114,881 included the following expenses as summarized:

Asplundh (as reclassification)	1 entry	$ 50,487	**Audit Issue #19**
Cen-Com	3 entries sum to	$ 13,500	
Cintas First Aid & Safety	1 entry	$ 123	
Energy Initiatives Group	1 entry	$ 546	
Graybar Electric Company	1 entry	$ 87	
Hunter North Associates	1 entry	$ 380	
JP Morgan Chase Bank	7 entries sum to	$ 3,216	
Liberty Employees	1 entry	$ 74	
Safety Source Northeast	4 entries sum to	$ 1,151	
Town of Salem	2 entries sum to	$ 220	
United Power Group	20 entries sum to	$ 44,020	
Weidmann Diagnostic Solutions, Inc.	1 entry	$ (3,338)	
Accruals and reversals	4 entries sum to	$ -0-	
Fleet	30 entries sum to	$ 5,951	
Inventory transactions	4 entries sum to	$ (1,536)	
		$114,881	

Regarding Cen-Com, refer to the discussion earlier in this audit report relating to account 8830-2-9851-51-5410-5830. JP Morgan Chase payments are for employees' p-card purchases.

Regarding United Power, 8830-2-9851-56-5210-5920, Maintenance of Station Equipment contained 20 entries summing to $44,020. Audit requested support for one entry in the amount of $6,760, posted on 12/21/2018. The invoice provided was dated 6/20/2018 and was for services performed in June 2018, with payment due net 30. The approval stamp on the invoice was dated 12/6/2018, almost six months later. Audit cannot determine the appropriateness of the remainder of the postings, which began on January 4, 2018.

Account #593 Maintenance of Overhead Lines $3,081,104 per the FERC Form 1 represents an increase over the 2017 year-end balance of 56%. The 2018 balance was verified to the filing schedule RR-2-1 and to the following general ledger accounts:

8830-2-0000-56-5010-5930	Maint of overhead lines Labor	$ -0-	11 entries
8830-2-0000-56-5210-5930	Maint of overhead lines	$ -0-	8 entries
8830-2-9851-56-5010-5930	Maint of Overhead Lines	$ 645,817	2,472 entries
8830-2-9851-56-5210-5930	Maint of Overhead Lines	$ 503,185	515 entries
8830-2-0000-56-5210-5931	Maint of overhead lines-Trouble	$ 177,233	91 entries
8830-2-9851-56-5210-5931	Maint of Overhead Lines - Trouble	$ 209,819	1 entry
8830-2-0000-56-5010-5932	Maint of oh lines-Veg Mgmt-Labor	$ -0-	21 entries
8830-2-0000-56-5210-5932	Maint of overhead lines-Veg Mgmt	$ 146,988	262 entries
8830-2-9851-56-5010-5932	Maint of OH Lines - Veg Mgmt	$ 200,834	115 entries
8830-2-9851-56-5210-5932	Maint of OH Lines - Veg Mgmt	$1,197,228	343 entries
		$3,081,104	3,839 entries

The site codes above are:
0000-Other

9851-Operations Electric

Class 56 represents Maintenance expenses

The "natural account" represents:
5010-Labor
5210-Maintenance Expense-Operations

The sum of the four Maintenance of Overhead Lines-Vegetation Management accounts ending in -5932 equals $1,545,049. The figure is included within the RR-3-10 adjustment in the filing. Further detailed testing of these three accounts was not done as part of this audit. However, certain vegetation management jobs originally coded to account 8830-2-0000-56-5210-5931 Maintenance of overhead lines-trouble account continue to post to that account for Liberty's tracking consistency. Audit cannot determine the portion of this account that should be included in the RR-3-10 adjustment, or RR-3-06 adjustment. Transactions within the -5210-5931 Trouble account with descriptions "accrual-veg mgmt." sum to $37,698. It appears that the RR-3-10 proposed adjustment is overstated by $37,698. **Audit Issue #19**

The 8830-2-0000-56-5010-5930 Maintenance of overhead lines, labor account with eleven entries was cleared to zero with a credit to this account in the amount of $1,022.01. The debit offset was noted in 8830-2-9851-56-5010-5930.

8830-2-0000-56-5210-5930 Maintenance of overhead lines account with eight entries was cleared to zero with a credit in the amount of $1,719.61. The seven entries that sum to that figure were paid to the TRC Companies. The debit offset to the clearing entry was noted in 8830-2-9851-56-5210-5930.

One entry on 12/31/2018 in the amount of $1,900 appears to have been posted in error. Refer to the write-up below for account 8830-2-0000-56-5210-5940 Maintenance of underground lines

The 2,472 entries in account 8830-2-9851-56-5010-5930, Maintenance of Overhead Lines, $645,817 were reviewed. 2,305 of the entries, summing to $437,610, were weekly payroll entries. Each week, an average of 63 payroll entries were booked. 28 reclassification entries sum to $191,051. Of the remaining account activity, 136 entries were payroll accruals and reversals; one immaterial burden allocation; and two bonus accruals.

The 8830-2-9851-56-5210-5930, Maintenance of Overhead Lines $503,185, is the result of 515 entries. Activity included AP accruals and reversals; payments to a variety of vendors and municipalities; financial and inventory transaction entries; reclassification entries; maintenance fee amortization entries for GIS license and software; and fleet spread entries.

Account 8830-2-0000-56-5210-5931, Maintenance of overhead lines-Trouble $177,233, is the sum of 91 entries.

54 entries paid to Asplundh sum to	$ 292,482
6 entries paid to Chippers sum to	$ 18,760
10 entries paid to Lakeside Environmental Consulting sum to	$ 38,112
3 entries for accruals and reclass sum to	$(209,819)
18 entries for Vegetation Management accruals and reversals sum	$ 37,698
	$ 177,233

Account 8830-2-9851-56-5210-5931, Maintenance of Overhead Lines - Trouble $209,819 is one entry, posted on 9/30/2018. The credit offset was noted in account 8830-2-0000-56-5210-5931, Maintenance of Overhead Lines-Trouble, and represented the majority of the account's activity from January through September. Entries in the 0000-56-5210-5931 account included payments to Asplundh Tree Expert, Chippers, and Lakeside Environmental Consulting.

Audit questioned the service for which Lakeside Environmental Consulting was paid, and was told that the company is a contractor for vegetation management. They provide arborists who perform work planning, prescriptive work for both scheduled maintenance (booked to operations and maintenance accounts) and vegetation related to new construction, which is booked to construction work-in-progress. The company also assists Liberty with auditing of completed vegetation work, tree-caused interruption investigations, review of customer calls and review of trouble or storm related vegetation inspection and subsequent identification, and documenting the request or trouble related work. Audit did not determine if any portion of the Lakeside costs should be included in the filing RR-3-10 vegetation management proposed adjustment.

Account #594 Maintenance of Underground Lines $71,684 per the FERC Form 1 represents an increase of 8% over the 2017 year-end figure. The total was verified to the filing schedule RR-2-1, and tied to the following general ledger accounts:

8830-2-0000-56-5210-5940	Maint of underground lines	$(1,900)
8830-2-9851-56-5010-5940	Maint of Underground Lines	$12,865
8830-2-9851-56-5210-5940	Maint of Underground Lines	$60,719
		$71,684

The credit balance in the first account is the result of a credit on 12/31/2018 that corrected a debit entry of 6/12/2018. That entry however, was part of a$4,121.58 credit reclassification on 9/30/2018. That entry moved the account balance to 8830-2-9851-56-5210-5940. The correcting entry on 12/31/2018 appears to have been made to the account in error, with the debit side of the entry posting to 8830-2-0000-56-5210-5932 Maintenance of overhead lines-Veg Mgmt. This resulted in an overstatement of account 5932 and an understatement of account 5940. The overall impact to the income statement is zero.

Account 8830-2-9851-56-5010-5940 Maintenance of Underground Lines $12,865 is the sum of 78 journal entries relating to weekly payroll.

The 8830-2-9851-56-5210-5940 Maintenance of Underground Lines $60,719 is the sum of 158 journal entries. Activity included weekly payroll, payroll accruals, vendor payments, inventory entries, fleet spreads and revisions to the fleet spreads. Audit questioned the posting of payroll related items to the site code -5210-, and was informed that the job code 8830-9851-59401 had been inadvertently mapped to 5210 rather than 5010. The Company intends to correct the IT coding. The overall balance in the FERC 594 account is not impacted; however, the 8830-2-9851-56-5210-5940 account should be reduced by the payroll amount of $19,344, resulting in the new balance of $41,375. See the *Payroll Section* for additional details. Audit conducted an overview of the entire expense accounts' detailed general ledger to determine if other accounts included payroll in site 5210 rather than 5010, labor. It appears that this 5940 account is the only one with the mis-mapped job code.

Account #595 Maintenance of Line Transformers $49,039 per the FERC Form 1 represents an increase over the 2017 balance of 44%. The 2018 total was verified to the filing schedule RR-2-1 and to the following general ledger balances:

8830-2-9851-56-5010-5950	Maint. of Line Transformers	$23,353
8830-2-9851-56-5210-5950	Maint. of Line Transformers	$25,686
		$49,039

The -5010-5950 account is the sum of 184 journal entries, each of which represented weekly payroll entries for specific jobs, and payroll accruals and reversals for specific jobs.

The -5210-5950 account reflected 12 entries paid to three vendors totaling $32,038; eight accounts payable accruals and offsets that sum to zero; one reclassification credit of $8,899; and 25 fleet spreads and corrections summing to $2,547 were noted.

Account #596 Maintenance of Street Lighting and Signal Systems $145,925 per the FERC Form 1 is an increase over the prior year of 46%. The total agrees with the filing schedule RR-2-1 and was verified to the following general ledger accounts:

8830-2-9851-56-5010-5960	Maint of Street Lighting & Signal Systems	$ 91,853
8830-2-9851-56-5210-5960	Maint of Street Lighting & Signal Systems	$ 54,072
		$145,925

The -5010-5960 account is the sum of over five hundred payroll, payroll accrual, and bonus accrual entries.

The -5210-5960 account reflects over two hundred inventory transactions, fleet spreads and revisions.

Account #597 Maintenance of Meters $69,893 per FERC Form 1 and the filing schedule RR-2-1 was verified to the following general ledger accounts:

8830-2-9851-56-5010-5970	Maint. of Meters	$17,646	60 entries
8830-2-9851-56-5210-5970	Maint. of Meters	$52,247	47 entries
		$69,893	

The 12/31/2018 total represents a decrease from the 12/31/2017 balance by 13%.

The -5010-5970 account is the sum of payroll, payroll accrual, and bonus accrual entries. The -5210-5970 account reflects 25 fleet spreads and corrections to the fleet spreads. Overall fleet sums to $3,340. 22 entries were for five vendors, summing to $48,907. Four of those entries were paid in December 2018 to TESCO, an Advent Company and sum to $42,560. Invoices provided by the Company reflected four different weeks in November of field meter testing at unit pricing of $1,120 per meter test.

Account #598 Maintenance of Miscellaneous Distribution Plant $116,392 per the FERC Form 1 represents an increase of 41% of the prior year. The account did not tie directly to the filing schedule RR-2-1, which reflects $185,504, $69,113 higher than the FERC Form 1 and general ledger. Refer to the mirror variance identified in account 582. The general ledger, which agrees with the FERC Form 1, includes:

8830-2-0000-56-5010-5980	Dist Maint-Misc Distr Plant – Labour	$ -0-	
8830-2-0000-56-5210-5980	Dist Maint-Misc Distr Plant	$ 44,405	
8830-2-9851-56-5010-5980	Maint of Misc Distribution Plant	$ 30,583	
8830-2-9851-56-5210-5980	Maint of Misc Distribution Plant	$ 41,404	
	Total general ledger and FERC Form 1 account 598	$116,392	
8830-2-**9853**-51-5444-**735**0	Misc Production Expense	$ 69,113	incorrect account
	Filing schedule RR-2-1 reflected for account 598	$185,504	

Payroll entries in January, February, March, and June, as well as bonus accruals, were in the first account. The net activity, $2,513, was credited via reclassification, and booked to 8830-2-9851-56-5010-5980, Maint of Misc Distribution Plant on 9/30/2018.

Account 8830-2-0000-56-5210-5980 showed eight entries. One debit, in the amount of $45,430.39 for job 8830-VM1215-18L4 4, was for Asplundh Tree Experts. Total debits to the account for 2018 were $48,050, and credits $3,644 resulting in the $44,405. It appears that the Asplundh invoice was booked to the incorrect account, and should be included in the RR-3-10 proposed REP/VMP figure. **Audit Issue #19**

Account -9851-56-5010-5980 contains 168 payroll related entries and one "trade discount" credit in the amount of $183.90 relating to a WW Grainger purchase. The credit was posted to the incorrect sub-account, since it is not labor. The offset should have posted to the account below.

Account -9851-56-5210-5980 is the sum of 107 entries, identified as:

Airgas	13 entries sum to	$ 3,167
Altec Industries	6 entries sum to	$ 1,721
Anixter, Inc.	1 entry	$ 3,981
WW Grainger	8 entries sum to	$ 8,955
Hastings Fiberglass	1 entry	$ 821
Hi-Line Utility Supply	2 entries sum to	$ 600
Hunter North Assoc.	1 entry	$ 190
Hydron Incorporated	2 entries sum to	$ 815
JP Morgan Chase	11 entries sum to	$ 7,893
Power Washer Sales	1 entry	$ 416
Softchoice Corp.	1 entry	$ 26
Stuart Irby	3 entries sum to	$ 1,595
Liberty Employee	1 entry	$ 31
Utility Power Supply	5 entries sum to	$ 9,473
Wise El Santo Co.	5 entries sum to	$ 438
Fleet related	44 entries sum to	$ 257
Reclassification	1 entry	$ 1,025
Total for sub account	8830-2-9851-56-5210-5980	$41,404

Site 9853 is identified in the filing 1604.01(a)(9)(b) as Production, Dispatch and Control. The activity in the account, 8830-2-**9853**-51-5444-**735**0 Misc. Production Expense that sums to $69,113, has been included in the total for account 598 within the filing. The activity is the sum of one $15 immaterial expense entry and 79 fleet spreads, adjustments, and revisions. The FERC Uniform System of Accounts does not include #735. **Audit Issue #9**

Customer Account Expenses, per FERC Form 1 for the years ending 12/31/2017 and 12/31/2018 are reflected below. Overall, Customer Account Expenses decreased 6%.

		12/31/2017	12/31/2018	% change
901	Supervision	$ 187,013	$ 181,262	-3%
902	Meter Reading Expenses	$ 402,402	$ 378,155	-6%
903	Customer Records and Collection Expenses	$ 1,512,937	$ 1,373,203	-9%
904	Uncollectible Accounts	$ 62,385	$ 68,661	10%
905	Miscellaneous Customer Accounts Expenses	$ 24,500	$ 30,228	23%
	Total Customer Accounts Expenses	$ 2,189,237	$ 2,031,509	-7%

Each of the 90x accounts was verified to the filing schedule RR-2-1 and to the general ledger.

Account #901 Supervision $181,262 per the FERC Form 1 represents a decrease over the 2017 balance of 3%. The total was verified to the RR-2-1 schedule in the filing, and was tied to the general ledger account 8830-2-9865-69-5010-9010, Supervision. Activity in the account was noted to be weekly payrolls, bonus accruals, and year end vacation accruals.

Account #902 Meter Reading Expenses $378,155 per the FERC Form 1 represents a decrease of 6% over the prior year. The total was verified to the RR-2-1 schedule in the filing, and was tied to the general ledger accounts:

8830-2-9851-69-5010-9020	Meter Reading Expenses	$193,351 labor
8830-2-9851-69-5250-9020	Meter Reading Expenses	$ 14,823 expenses and fleet
8830-2-9866-69-5010-9020	Meter Reading Expenses – Labor	$ 25,292 labor
8830-2-9866-69-5250-9020	Meter Reading Expenses	$144,689
		$378,155

Site 9851 represents Operations-Electric. Site 9866 represents Load Data Services.

Account 8830-2-9851-69-5010-9020 represents weekly payroll, monthly payroll accruals and reversals, monthly fleet spread. At year end there was only one payroll accrual.

Account 8830-2-9851-69-5250-9020 reflected eleven fleet spreads, reversals, and revisions, which net to $12,023. One accrual reversal, booked on 1/1/20108 was offset with the actual invoice from Itron in May for $12,798. One additional invoice in September, in the amount of $2,800 paid to Avcom was noted.

Account 8830-2-9866-69-5010-5010-9020 reflected 114 weekly payroll, monthly bonus accruals, and an accrual true up at year-end.

Account 8830-2-9866-69-5250-9020 showed two accrual entries which offset each other; twelve utility clearing entries related to job 8830-9866-telecom summing to $3,097; ten equal monthly maintenance fee amortization entries summing to $10,942, and two equal monthly entries summing to $2,184; 29 entries netting to $128,220 relating to CGI; and one entry for Softchoice Corporation in the amount of $246. The clearing entries booked to this account are communications expenses that are then booked to departments, based on head count. The maintenance fee amortization entries were for a prepaid Oracle invoice software update license and support.

Account 903 Customer Records and Expenses $1,373,203 was verified to the filing schedule RR-2-1 and to the FERC Form 1. The expense represents a 9% decrease over the 2017 total. Audit verified the 2018 figure to the following general ledger accounts:

8830-2-0000-69-5250-9030	Customer Records & Collection Expenses	$ 646
8830-2-9851-69-5010-9030	Customer Records & Collections Expense	$ 50,241
8830-2-9865-69-5010-9030	Customer Records & Collections Expenses – Labor	$ 660,175
8830-2-9865-69-5250-9030	Customer Records & Collections Expenses	$ 662,141
		$1,373,203

8830-2-0000-69-5250-9030 $646 is the sum of 121 entries, averaging $5.39 each. The journal entry descriptions reflect IC: CS0NH, Journal:XXXXXXX CCSM-PYMT. The Company indicated that the transactions are "good faith" courtesy adjustments to customers' bills for the reversal or forgiveness of certain charges, including late payment charges, connection fees, minor balances, etc. The total of the account is immaterial.

8830-2-9851-69-5010-9030 $50,241 is the sum of 255 entries. The majority are weekly payroll, monthly accruals for payroll, one bonus accrual true up in June, and one fleet spread. The site code 9851 indicate operations-electric.

8830-2-9865-69-5010-9030 $660,175is the net of 3,289 payroll related entries for site 9865, customer care. The activity reflected weekly payroll entries, payroll accruals, vacation accruals, and reversals. Some of the entries, identified as Clear Stat clear to the employee's home department.

8830-2-9865-69-5250-9030 $662,141. Of the 499 entries, some of the higher dollar subtotals are:

FiServe	32 entries sum to $72,996
Garda CL Technical Services	19 entries sum to $3,140
Language Line Services	14 entries sum to $15,825
LexisNexis	12 entries $1,080
Liberty Utilities Canada 32 entries,	31 for job "8830-FISERV Fees 4" $412,121
	1 for $250 included pd to Libcan for "purchases
Pitney Bowes	9 entries $21,249
Maintenance fee amortization	19 entries $52,066

Clarification of the amortization total was provided. Cogsdale, the Customer Service IT system contract (for calendar year 2018) was $45,030, and $12,060 was a contract with Dimension Data for IT services from August 2017 – 2018. $7,036 of the test year and prior year contract was included in the calendar year 2018.

Invoices relating to the Language Line Services were provided. Twelve of the fourteen were not paid in a timely manner, with the monthly invoice reflecting past due balances. Only the current balances were included on the general ledger, and there were no late fees or interest charged. Two of the fourteen invoices related to services provided in November and December 2017, summing to $1,727. In addition, the entry booked in December reflected 30% of the current and past due amount, thus overstating the general ledger by $1,251. **Audit Issue #11**

Account 904 Uncollectible Accounts $68,661 per the FERC Form 1 was verified to the filing schedule RR-2-1, and represents an increase of 10% over the 2017 balance. Audit tied the total to the following general ledger accounts:

8830-2-0000-80-8660-9040	Uncollectible accounts	$ -0-
8830-2-9865-80-8660-9040	Uncollectible Accounts	$ 244,476
8830-2-0000-80-8660-9041	Bad Debt Expense – Commodity	$(175,815)
		$ 68,661

Offsets to the Uncollectible Accounts $244,476 were credited to the Reserve for Bad Debt Accrual, account 8830-2-0000-10-1102-1443.

Activity in the Bad Debt Expense-Commodity reflected monthly credits relating to Commodity over/under calculations. Offsets were booked to 8830-2-0000-10-1101-1423 A/R Under Collect-Default/LR Sv. This balance sheet account, as well as 8830-2-0000-52-5455-5552, Purchased Power Costs, relate to the annual Default Service review. The -5552 account has been noted on the filing as a flow-through item.

<u>Customer Service and Information Expenses</u> per FERC Form 1 for the years ending 12/31/2017 and 12/31/2018 are reflected below. Overall, Customer Service and Information Expenses decreased 35%.

			12/31/2017		12/31/2018	% change
907	Supervision	$	-	$	426	100%
909	Informational and Instructional Expenses	$	42,970	$	31,229	-27%
910	Miscellaneous Customer Service and Informational Expenses	$	7,319	$	1,085	-85%
	Total Customer Service and Informational Expenses	$	50,289	$	32,740	-35%

Each of the accounts was verified to the filing schedule RR-2-1 and to the general ledger.

<u>Account 907 Supervision</u> per the FERC Form 1 was $426 for the year, which agrees with the filing schedule RR-2-1. This represents an increase of $426 over the prior period. There were two entries in account 8830-2-0000-69-5010-9070, Supervision-labor. One debit for $426 was booked 7/27/2018, and one credit booked 9/30/2018 caused the account to show zero at year end. The credit was offset to account 8830-2-9851-69-5010-9070, Supervision-labor. Audit requested clarification of the activity, and was informed that sales employees' hour keys were mapped to a particular general ledger account. In 2017, a different key was mapped to a different account, and in 2018, both changed again. The one entry was entered in error due to the employee using the incorrect hour key. The overall expense does not change.

<u>Account 909 Informational and Instructional Expenses</u> $31,229 per the FERC Form 1 represents a decrease of 27% over the 2017 balance. Audit verified the $31,229 to the general ledger accounts:

8830-2-9865-69-5010-9090	Info & Insr Advertising – Labor	$ 46
8830-2-9865-69-5390-9090	Information & Instructional Advertising Expense	<u>$31,183</u>
		$31,229

The $46 in the labor account represents just one entry, posted on July 31, 2018 and was part of a reclassification of site -0000- to departmental sites. 9865 is Customer Care.

The filing schedule RR-2-1 reflects a total of $32,314 for account **908** rather than **909**, a variance of $1,085 higher than the FERC Form 1 and the general ledger. Audit noted that the FERC Form 1 reflects $1,085 for account **910**, Miscellaneous Customer Service and Informational Expenses. **Audit Issue #9** That total was verified to the following:

8830-2-0000-69-5010-9100	Misc customer service and info exp-labor	$ -0-
8830-2-0000-69-5390-9100	Misc customer service and informational expenses	$(12,000)
8830-2-9865-69-5010-9100	Misc customer service and info exp-labor	$ 1
8830-2-9865-69-5390-9100	Misc customer service and informational expenses	<u>$ 13,084</u>
		$ 1,085

The $(12,000) credit was booked to the incorrect account, and should have posted to 8830-2-0000-69-5250-9050. The error does not impact the overall income statement.

Included within account 8830-2-9865-69-5390-9100 were rent expenses paid to the Ciborowski Family Trust, summing to $1,083.95, or 48% of the $2,295.60 December rent. The expenses should have been booked to 8830-2-9865-69-5110-9310. Overall, the income statement is not impacted.

Sales Expenses per FERC Form 1 for the years ending 12/31/2017 and 12/31/2018 are reflected below. Overall, Sales Expenses decreased 14%.

		12/31/2017	12/31/2018	% change
912	Demonstrating and Selling Expenses	$ 123,774	$ 55,513	-55%
916	Miscellaneous Sales Expenses	$ 29,267	$ 75,979	160%
	Total Sales Expenses	$ 153,041	$ 131,492	-14%

The filing schedule RR-2-1 reflects a total for Customer Service, Miscellaneous Expenses on line 80 page 3 of 5, for account 910 in the amount of $136,663. This total is actually the sum of the 912 and 916 Sales expenses, plus 8830-2-9867-69-5010-9207, Demonstrating & Selling Labor, $5,171. **Audit Issue #9**

Account 912 is the sum of the following general ledger accounts:

8830-2-9865-69-5010-9120	Demonstrating & Selling Exp Labor	$51,934
8830-2-9865-69-5390-9120	Demonstrating & Selling Exp	$ 3,579
8830-2-9865-69-5390-9130	Advertising Expenses	$ -0-
		$55,513

The Labor expense account reflected weekly payroll entries from 12/27/2017 through 7/21/2018 only. Labor expenses were then booked to 8830-2-9867-69-5010-9160.

8830-2-9865-69-5390-9120 $3,579 account activity included 11 entries. Eight of the entries were for job 8830-9868-KEYACCT 4, $2,510. Audit requested documentation to support one entry in the amount of $943.87. Immaterial payments to two vendors were not reviewed. Support for one payment to the Hanover Chamber of Commerce for $1,000 was also requested. The $1,000 appears to be for tickets to an event and should be below the line. **Audit Issue #14**

Activity noted in the Advertising Expenses account 9130 was an accrual and reversal, netting to the zero noted above.

Account 916 Miscellaneous Sales Expenses $75,979 is the sum of:

8830-2-9867-69-5010-9160	Misc Sales Expenses – Labor	$74,327
8830-2-9867-69-5390-9160	Misc Sales Expenses	$ 1,652
	Total account 916	$75,979

The labor account is the sum of 83 entries. There was not an accrual reversal posted on 1/1/2018, but there were three payroll and vacation accruals posted at 12/31/2018 summing to $5,708.

Entries in <u>account -5390-9160</u> were for an employee working on job 8830-9867-KEYACCT 4, representing manager hours. Two entries were for purchased labor through LUSC. Expense reimbursement of $391.82 was tied to an "expense report processor" reflecting August through September 2018 meals, travel, hotel, airfare, etc., summing to $1,734.98. $391.82, or 30% was allocated to GSE. Audit could not determine the specifics of the line items, but the entry/allocation appears to be within reason.

Entries in <u>8830-2-9867-69-5010-9207</u> were posted 10/31, 11/30, and 12/31/2018, and sum to $5,171. Each entry was a LUSC "purchase" of labor. Prior to October, labor was posted to account 8830-2-9867-69-5010-9160, Audit requested detailed support for two entries posted to -9207 on 12/31/2018: $1,302 and $1,264.85. The entries were part of a direct billing invoice from Liberty Utilities Central Shared Services Co invoice for 12/2018 in the amount of $633,492.10. Audit could not determine what WS Job number, and related labor line items representing either entry. The Company subsequently identified the specific line items in the invoice that sum to both figures. Due to timing, Audit did not request timesheets to support the line items.

<u>**Administrative and General Expenses**</u> per FERC Form 1 for the years ending 12/31/2017 and 12/31/2018 are reflected below. Overall, Administrative and General Expenses increased 6%.

			12/31/2017		**12/31/2018**	**% change**
920	Administrative and General Salaries	$	2,579,108	$	2,957,157	15%
921	Office Supplies and Expenses	$	507,736	$	634,851	25%
922	Administrative Expenses Transferred-Credit	$	(5,731,031)	$	(6,391,924)	12%
923	Outside Services Employes	$	2,149,850	$	2,757,506	28%
924	Property Insurance	$	1,512,799	$	1,505,054	-1%
925	Injuries and Damages	$	288,518	$	750,029	160%
926	Employee Pensions and Benefits	$	4,752,269	$	4,240,545	-11%
928	Regulatory Commission Expenses	$	459,096	$	453,765	-1%
930.2	Miscellaneous General Expenses	$	8,678	$	7,142	-18%
931	Rents	$	166,523	$	155,075	-7%
	Total Administrative and General Operation Expenses	$	6,693,546	$	7,069,200	6%
935	Maintenance of General Plant	$	1,948	$	-	-100%
	Total Administrative and General Maintenance Expenses	$	1,948	$	-	-100%
	Total Administrative and General Expenses	$	6,695,494	$	7,069,200	6%

<u>920 Administrative and General $2,957,157</u> per the FERC Form 1 represents a 15% increase over the 2017 FERC Form 1 balance. Audit did verify the FERC Form 1 total to the general ledger accounts. However, the account <u>does not agree with the filing schedule RR-2-1</u>, which shows on page 3 of 5 a balance for account 920 of $2,053,610. Some of the 920 subaccounts are included within the 920LU figure in the filing (RR-2-1 page 4 of 5 line 95). The <u>filing</u> figure of $2,053,610 was verified to the following general ledger accounts:

8830-2-0000-69-7030-9200	LTIP Expense	$ -0-
8830-2-9810-69-7030-9200	LTIP Expense	$ 98,498
8830-2-9800-69-5010-9200	A&G Salaries-IT	$ -0-
8830-2-9810-69-5010-9200	A&G Salaries-HR	$ 292,117
8830-2-9812-69-5010-9200	L&D Salaries	$ 10,183
8830-2-9815-69-5010-9200	A&G Salaries-Environmental/Health&Safety	$ 128,649
8830-2-9820-69-5010-9200	A&G Salaries- Finance and Admin	$ 395,360
8830-2-9823-69-5010-9200	A&G Salaries-Legal	$ 114,181
8830-2-9825-69-5010-9200	A&G Salaries-Purchasing	$ 95,052
8830-2-9830-69-5010-9200	A&G Salaries-Regulatory	$ 321,069
8830-2-9835-69-5010-9200	A&G Salaries-Energy Procurement	$ 30,857
8830-2-9840-69-5010-9200	A&G Salaries-Procurement/Supply Chain	$ -0-
8830-2-9850-69-5010-9200	A&G Salaries-Operations	$ -0-
8830-2-9851-69-5010-9200	Admin & General Salaries	$ (54,000)
8830-2-9854-69-5010-9200	Admin and General Salaries	$ 44,343
8830-2-9860-69-5010-9200	A&G Salaries-Executive	$ 251,473
8830-2-9865-69-5010-9200	Admin Labor	$ 41,997
8830-2-9868-69-5010-9200	Admin & General Salaries	$ 29,099
8830-2-9835-69-5010-9208	LU Corp US Energy Procurement Labor	$ 39,959
8830-2-9850-69-5010-9208	LU Corp US Operations Labor	$ 21,136
8830-2-9810-69-5010-9209	Eastern Region Labor-HR	$ 6,809
8830-2-9815-69-5010-9209	Eastern Region Labor-EHS	$ 7,623
8830-2-9820-69-5010-9209	Eastern Region Labor-Finance	$ 49,641
8830-2-9823-69-5010-9209	Eastern Region Labor-Legal	$ 1,891
8830-2-9835-69-5010-9209	Eastern Region Labor-Energy Procurement	$ 5,308
8830-2-9860-69-5010-9209	LU Region Labor	$ 100,029
8830-2-9865-69-5010-9209	East Region Labor-Customer Service	$ 22,336
	Total 920 per Filing RR-2-1 page 3 of 5 line 85	$2,053,610

The account ending in 9207 is included in the Demonstration and Selling total, discussed earlier. 920 accounts ending in 9201, 9202, 9204, 9205, 9206, and some of 9208 are not included in this filing total. Rather, they are included within the filing on schedule RR-2-1 page 4 of 5 line 95, LU Costs, identified as 920LU $2,099,548. Refer to the 920LU portion of this report.

9200 sub-accounts, per the filing schedule Puc 1604.01(a)(9)(b) page 18 of 22 are representative of twenty different salary or LTIP (long term incentive plan) accounts. Sub-accounts 9208 relate to LU corporate US labor for three different departments. Sub-accounts 9209 represent nine specific regional labor accounts.

8830-2-0000-69-7030-9200 LTIP Expense, $-0-, reflected three monthly expense accruals of $6,789.48 each for January through March. On 7/31/2018, a reclassification of the $20,368.44 credited the account and offset the entry to 8830-2-9810-69-7030-9200 LTIP Expense. Also in that account were the remaining monthly entries for the accrual, as well as three credit true-ups summing to $8,780. A final 12/31/2018 true-up of a debit $17,329.23

resulted in the year-end total of $98,498. Since the prior rate case (test year 2015) the total expense activity relating to Long Term Incentive Plan has been:

	2015	2016	2017	2018
8830-2-0000-69-7030-9200	$33,554	$34,963	$100,633	$ -0-
8830-2-9810-69-7030-9200	$ -0-	$ -0-	$ -0-	$98,498

For details regarding the LTIP, refer to the filing 1604.01(a)(15)(c) for the Performance and Restricted Share Unit Plan (a/k/a Long Term Incentive Plan), as well as discovery in this docket.

Account 8830-2-9810-69-5010-9200 $292,117 is the sum of 240 journal entries. One small payroll accrual reversal was noted on 1/1/2018, while at 12/31/2018, payroll, bonus, vacation accruals and true-ups in the amount of $23,147 were debited.

8830-2-9812-69-5010-9200 L&D Salaries reflected payroll entries beginning 5/31/2018 and continuing through 12/31/2018. L&D stands for Learning and Development, and is new in 2018. Prior to the establishment of this department, the time not worked and bonus accrual costs were included in the Human Resources department 9810.

8830-2-9815-69-5010-9200 A&G Salaries-Environmental/Health & Safety
$128,649 is the net of 249 journal entries, consisting of weekly payroll, payroll accruals and reversals, bonus accruals and true-ups. Year-end accruals sum to $11,317. The 1/1/2018 accrual reversal was $(809). The Company indicated that the $(809) was the reversal of the payroll accrual only. Bonus accruals are not reversed, rather, are expensed monthly, then when paid, "relieves the liability". At year-end 2018, the accrual period was one day longer than year-end 2017, and there was no vacation accrued 12/31/2017.

8830-2-9820-69-5010-9200 A&G Salaries- Finance and Admin $395,360 is the net of 378 journal entries, comprised of weekly payroll, payroll accruals and reversals, bonus accruals and true-ups. The 1/1/2018 payroll accrual reversal, in the amount of $(5,110) was noted and compared to the payroll, vacation, bonus accruals at 12/31/2018 which sum to $19,599. Refer to the discussion in the A&G Salaries-EHS above.

8830-2-9823-69-5010-9200 A&G Salaries-Legal $114,181 represents the net of 134 journal entries. The entries are weekly payroll, payroll accruals and reversals. The 1/1/2018 payroll accrual reversal of $(501) was noted. The 12/31/2018 payroll, bonus, vacation accruals sum to $11,835. Refer to the discussion in the A&G Salaries-EHS above.

8830-2-9825-69-5010-9200 A&G Salaries-Purchasing $95,052 include six journal entries at 12/31/2018 representing payroll, vacation, and bonus accruals summing to $3,362. A payroll accrual reversal on 1/1/2018 in the amount of $(621) was seen. Overall, the account activity is the net of 177 journal entries consisting of the payroll accruals and reversals, weekly payroll entries, bonus accrual true ups, and the year-end accruals and reversals.

8830-2-9830-69-5010-9200 A&G Salaries-Regulatory $321,069 represents 237 journal entries. Weekly payrolls, payroll accruals and reversals, bonus accruals, and a vacation accrual at year-end were noted. The 1/1/2018 payroll accrual reversal, $(3,597) is noted in comparison to the 12/31/2018 accruals summing to $19,057.

8830-2-9835-69-5010-9200 A&G Salaries-Energy Procurement $30,857 is the net of 80 journal entries. Weekly payroll, payroll accruals, and bonus accruals and true-ups were noted from 1/1/2018 through 8/31/2018. On 9/30/2018, $7,809.22 was credited as a reclassification of time not worked and debited to 8830-2-0000-20-2810-2606 Due to Liberty Energy New Hampshire. Some Energy Procurement expense is part of the Annual Retail Rate filings, and posted to account 555. RSA 374-F:3 authorized allocation of administrative costs to the default service customers. Docket DE 05-126 resolved issues relating to Post-transition to Default Service.

8830-2-9851-69-5010-9200 Admin & General Salaries $(54,000) The account activity was only three entries, all on 3/16/2018, all to "clear purchased vacation". Purchased vacation is paid through the normal payroll process. After 2018, the process is done monthly.

8830-2-9854-69-5010-9200 Admin and General Salaries $44,343 is the net of 83 journal entries. Activity in the account began 2/23/2018 and ended 12/28/2018. Weekly payroll entries, and monthly accruals and reversals were noted during the year, but there were no accruals at year-end. The Company stated that this Engineering department was created in 2017. Labor prior to that was posted to account 9850. Accruals were not booked at year-end 2018 as there were no timesheets for the period 12/23/2018 – 12/31/2018, and the accruals are based on the timesheets.

8830-2-9860-69-5010-9200 A&G Salaries-Executive $251,473 is the net of 193 journal entries. An accrual reversal on 1/1/2018 was noted in the amount of $(1,771). Weekly payroll entries, payroll accruals and reversals, bonus accruals and true-ups and payroll clearing entries were noted throughout the year. At 12/31/2018, accruals summing to $22,247 were noted. Refer to the discussion in the A&G Salaries-EHS above.

8830-2-9865-69-5010-9200 Admin Labor $41,997 represents the net of 75 journal entries pertaining to weekly payroll, payroll accruals and reversals. At 12/31/2018, a payroll accrual of $349 was noted. 1/1/2018 accrual reversal in the amount of $(497) was posted.

8830-2-9868-69-5010-9200 Admin & General Salaries $29,099 is the sum of 69 journal entries. $108 vacation accrual was booked at 12/31/2018. A payroll accrual reversal in the amount of $(481) was noted on 1/1/2018. Entries throughout the year were weekly payroll, payroll accruals and reversals, clearing of payroll accruals.

8830-2-9835-69-5010-9208 LU Corp US Energy Procurement Labor $39,959 is the sum of 18 debit entries, each with a description of Liberty Utilities Service Corp.

8830-2-9850-69-5010-9208 LU Corp US Operations Labor $21,136 is the net of 21 entries. As above, the descriptions for the majority of the account activity is Liberty Utilities Service Corp. 5010 does represent labor, so Audit requested supporting information relating to the entries. The Company indicated that overheads are included with labor and billed by department from corporate and regional.

8830-2-9810-69-5010-9209 Eastern Region Labor-HR $6,809 The account activity had four entries: 9/30/18, 10/31/18, 11/30/18, and 12/31/18. Prior to September, labor was posted to account 8830-2-9810-69-5010-9200. As above, regional labor is booked to specific departments with overheads included.

8830-2-9815-69-5010-9209 Eastern Region Labor-EHS $7,623 As above, activity in the account did not begin until September 2019. Prior to that, labor was posted to 8830-2-9815-69-5010-9200.

8830-2-9820-69-5010-9209 Eastern Region Labor-Finance $49,641 As above, activity in the account did not begin until September 2019. Prior to that, labor was posted to 8830-2-9815-69-5010-9200.

8830-2-9823-69-5010-9209 Eastern Region Labor-Legal $1,891 As above, activity in the account did not begin until September 2019. Prior to that, labor was posted to 8830-2-9815-69-5010-9200.

8830-2-9835-69-5010-9209 Eastern Region Labor-Energy Procurement $5,308. This account, as the other Regional accounts above, is new in 2018. Prior to establishment, labor posted to account 8830-2-9815-69-5010-9200.

8830-2-9860-69-5010-9209 LU Region Labor $100,029 The account activity contained 23 entries, from January through December 2018. The average was $4,349 and the activity was described as Liberty Utilities Service Corp. As earlier, the direct billing provided to support the December entries was not specific enough to determine if the entries were accurate.

8830-2-9865-69-5010-9209 East Region Labor-Customer Service $22,336. This account has fourteen entries, beginning in September. All entries indicate Liberty Utilities Service Corp. As above, the direct billing provided to support the December entries was not specific enough to determine if the entries were accurate.

The Filing Schedule RR-2-1, page 4 of 5, line 95 reflects additional expenses identified as account 920LU in the amount of $2,099,548. Audit verified the reported figure to the following accounts:

920x	$ 898,376	35 individual accounts not included in RR-2-1 line 85 balance
922x	$ (823,407)	14 individual accounts not included in RR-2-1 line 87 balance
923X	$1,887,889	21 individual accounts not included in RR-2-1 line 88 balance
931X	$ 136,690	2 individual accounts not included in RR-2-1 line 94 balance
Total 920LU	$2,099,548	

The FERC identifies the above accounts as:

920 Administrative and General Salaries
922 Administrative Expenses Transferred-Credit
923 Outside Services Employed
931 Rents

Account #921 A&G Office Supplies $634,851 per the FERC Form 1 agrees with the filing and the general ledger. The amount represents a 25% increase over the 12/31/2017 balance, and is the sum of sub accounts 9210 through 9216. The FERC account 921 represents Office Supplies and Expenses. The general ledger accounts, at a high level, represent:

9210 Office Supplies and Expenses	$203,620
9211 Travel	$ 91,691
9212 Utilities	$ 70,075
9213 Communications	$173,905
9214 Dues & Membership Fees	$ 27,270
9215 Office Supplies, Training	$ 56,938
9216 Meals, Entertainment, Postage	$ 11,352
Total account 921	$634,851

9210 Office Supplies and Expenses $203,620

8830-2-0000-69-5130-9210	Office supplies and expenses	$ (93)
8830-2-9800-69-5130-9210	Office Supplies-IT	$ 17,879
8830-2-9810-69-5130-9210	Office Supplies-HR	$ 6,759
8830-2-9815-69-5130-9210	Office Supplies-Environmental/Health& Safety	$ 26,637
8830-2-9820-69-5130-9210	Office Supplies-Finance and Admin	$ 38,322
8830-2-9823-69-5130-9210	Office Supplies-Legal	$ 17,317
8830-2-9825-69-5130-9210	Office Supplies-Purchasing	$ 3,556
8830-2-9830-69-5130-9210	Office Supplies-Regulatory	$ 15,695
8830-2-9835-69-5130-9210	Office Supplies-Energy Procurement	$ 22,614
8830-2-9850-69-5130-9210	Office Supplies-Operations	$ 2,467
8830-2-9851-69-5130-9210	Office Supplies	$ 3,307
8830-2-9852-69-5130-9210	Office Supplies	$ 168
8830-2-9853-69-5130-9210	Office Supplies	$ 5,112
8830-2-9854-69-5130-9210	Office Supplies	$ 6,466
8830-2-9860-69-5130-9210	Office Supplies – Executive	$ 31,475
8830-2-9865-69-5130-9210	Office Supplies-Customer service	$ 4,961
8830-2-9868-69-5130-9210	Office Supplies Strategic Plan	$ 978
	Subtotal accounts 9210	$203,620

8830-2-0000-69-5130-9210 $(93) is the result of one immaterial entry.

8830-2-9800-69-5130-9210 Office Supplies-IT $17,879 is the sum of 33 entries. One entry in the amount of $510 should have been booked to a Training general ledger account. The misclassification does not change the rate filing or utility operating income.

8830-2-9810-69-5130-9210 Office Supplies-HR $6,759 is the sum of 91 entries. The activity includes a donation to St. Jude's in a woman's memory. The $75 donation should be below the line. **Audit Issue #14**

8830-2-9815-69-5130-9210 Office Supplies-Environmental/Health& Safety $26,637 is the sum of 153 entries and includes a $600 payment to the Puritan Confectionary Company. Documentation provided was for $2,000, split $1,400 to EnergyNorth and $600 to Granite State Electric, for an EHSS Symposium scheduled for March 19, 2019. The $600 should have been booked as a prepaid expense. However, Audit understands that the Company expenses in full if the invoice is $10,000 or less. See also account 8830-2-9815-69-5200-9230, Outside services-Environmental/Health& Safety, $3,376.78 identified as Puritan Confectionary.

8830-2-9820-69-5130-9210 Office Supplies-Finance and Admin $38,322 is the total of 188 journal entries. Included within the account were entries for Aramark Uniform, Balance Professional, Empire District, various Liberty employees, Pitney Bowes, Softchoice Corporation, SAS Institute $1,395, Raven Ridge LLC d/b/a Staff Hunters $6,235, UPS, bank fees totaling $15,745. $1,641 of the bank fees are noted as December 2017. The fees are outside of the Test Year. **Audit Issue #11.** $139.31 of an employee reimbursement was for an Edible Arrangement fruit basket for the Finance team. This entry should have been booked below the line. **Audit Issue #14.** The SAS Institute allocation to GSE of $1,395 is for the license agreement from May 31, 2018 – May 30, 2019. Five months, or $581.25 should have been booked as a prepayment, however, falls below the $10,000 threshold.

8830-2-9823-69-5130-9210 Office Supplies-Legal $17,317 includes an entry in the amount of $9,700 paid to Pastori Krans, PLLC. The Company is aware that the invoice was booked to the incorrect account. It should have posted to 8830-2-9823-69-5200-9230 Outside services-Legal. The expense stemmed from an encounter between a customer and a collector. The expense should be considered non-recurring, given the nature of the encounter. **Audit Issue #13**

8830-2-9825-69-5130-9210 Office Supplies-Purchasing $3,556 is the sum of 24 entries, averaging $148. Detailed testing was not conducted.

8830-2-9830-69-5130-9210 Office Supplies-Regulatory $15,695. An invoice from energytools, llc. dated 5/18/2018 was reviewed. The total $31,500 was allocated 70%/30% ENG and GSE respectively. The cost was for an annual license fee 2/27/2018 – 2/26/2019 pursuant to DREAM System license agreement dated 2/27/2018. The entire cost of GSE's 30% portion was expensed. This account, based solely on a review of the energytools invoice, appears to be overstated by $1,575 which should have been booked as a prepaid. However, based on the Company expense threshold of $10,000 for prepayment, this is not considered an issue.

8830-2-9835-69-5130-9210 Office Supplies-Energy Procurement $22,614 includes four entries summing to $10,140 from the Business Economic Analysis & Research Company. Three of the four invoices reference "*2018 – 2023 Sales Forecast*", and one references "*2018 – 2034 Peak Forecast*". Audit noted that the total paid to this vendor in 2017 was $11,180. One entry in the amount of $11,850 represents 30% of the total invoice from InstaNext, Inc. for software service from 6/30/2018 through 6/30/2019. $5,925 of the invoice should have been booked as a prepaid. **Audit Issue #15**

8830-2-9850-69-5130-9210 Office Supplies-Operations $2,467 is the net of five entries, three of which were identified as Liberty Utilities Canada Corp. Those three debits sum to $2,549.52.

8830-2-9851-69-5130-9210 Office Supplies $3,307 is the sum of 13 entries. P-card expenses, PC Connection, and Ready Refresh were noted

8830-2-9852-69-5130-9210 Office Supplies $168 represents one entry paid to Staples.

8830-2-9853-69-5130-9210 Office Supplies $5,112 Audit reviewed one entry in the amount of $4,172.07 traced to an invoice from Liberty Utilities Central Shared Services Co for Direct Billing December 2018. Additional description indicated Operations Labor-Time not Worked. The amount represents GSE's 30% of the total TnW.

8830-2-9854-69-5130-9210 Office Supplies $6,466 represents the total of 56 entries. The activity included payments to Morgan Records Management, Softchoice Corporation, Staples, UPS, Aramark, Graphix Plus, and employee P-card expenses.

8830-2-9860-69-5130-9210 Office Supplies – Executive $31,475. Audit requested one invoice from Benchmark Graphics in the amount of $7,735.37, which was provided. The invoice showed 200 insulated hot/cold Yeti lowball rambler cups, with 2-sided engraving. **Audit Issue #14.** Overall, a total of $37,340.83 was paid to Benchmark, spread among eleven individual general ledger accounts throughout the test year. Audit did not verify the full $37,340.83 to specific invoices, thus does not conclude that all should be considered below the line or above the line.

8830-2-9865-69-5130-9210 Office Supplies-Customer service $4,961 is the sum of 46 entries. Payments to Western Union, UPS, Pitney Bowes, PC Connection, Morgan Records Management, Liberty Utilities Service Corp., and JP Morgan Chase Bank were noted.

8830-2-9868-69-5130-9210 Office Supplies Strategic Plan $978 is the total of eight entries. This general ledger identifier (Strategic Plan) is new since the 2015 audit.

<u>9211 Travel $91,691</u>

8830-2-9800-69-5131-9211	Travel-IT	$ 6,895
8830-2-9810-69-5131-9211	Travel-HR	$ 7,279
8830-2-9812-69-5131-9211	Travel LABS Training&Development	$ 2,204
8830-2-9815-69-5131-9211	Travel-EHSS	$ 4,445
8830-2-9820-69-5131-9211	Travel-Finance	$ 5,105
8830-2-9823-69-5131-9211	Travel	$ 801
8830-2-9824-69-5131-9211	Travel - Internal Audit	$ 887
8830-2-9825-69-5131-9211	Travel – Procurement	$ 777
8830-2-9830-69-5131-9211	Travel-Regulatory	$ 4,879
8830-2-9835-69-5131-9211	Travel - Energy Procurement	$ 495
8830-2-9850-69-5131-9211	Travel-Operations	$14,420
8830-2-9851-69-5131-9211	Travel	$ 6,629
8830-2-9853-69-5131-9211	Travel	$ 2,334
8830-2-9854-69-5131-9211	Travel	$19,624
8830-2-9860-69-5131-9211	Travel	$ 8,480
8830-2-9865-69-5131-9211	Travel-Customer Service	$ 1,167
8830-2-9868-69-5131-9211	Travel	$ 5,270
	Subtotal accounts 9211	$91,691

<u>8830-2-9800-69-5131-9211, Travel-IT</u> included an entry from Liberty Utilities Canada for $1,847.16. The direct billing from Algonquin Power Income Fund, described on the invoice to GSE as LABS Canada Direct March 2018 included a Wennsoft listing of all costs charged for the month. Of the total $27,244.77, $1,847.16 was listed as accommodations, meals and entertainment, and travel. Employee expense reports were provided to support the charge.

<u>8830-2-9820-69-5131-9211, Travel-Finance</u> included an entry for $1,185.02. Audit verified the amount to a travel and expense reimbursement for costs associated with attending the Eastern Utility Rate School in Albuquerque New Mexico. Supporting receipts accompanied the request for reimbursement. 100% of the reimbursement was charged to GSE, as the analyst works solely on the electric side of Liberty NH.

<u>8830-2-9830-69-5131-9211, Travel-Regulatory</u> included an entry for $1,549.87. As above, Audit verified the amount to a travel and expense reimbursement for costs associated with attending the Eastern Utility Rate School in Albuquerque New Mexico. Supporting receipts accompanied the request for reimbursement. As above, 100% of the reimbursement was charged to GSE.

<u>8830-2-9850-69-5131-9211, Travel-Operations</u> included an entry of $4,319.99. The invoice from Algonquin Power Income Fund described the $28,288.84 figure as LUC direct billing for August 2018. Of the attached Wennsoft summary of charges, thirteen entries of $15.23 and thirteen entries ranging from $285.75 to $483.98 were noted as “Travel”. After issuance of the DRAFT Audit Report, the Company provided a detailed listing of American Express charges relating to airline travel. Thirteen entries were noted that reflect the $4,319.99 in USD with flights primarily on Southwest Airlines.

8830-2-9860-69-5131-9211, Travel included an entry of $1,002. As above, the invoice from Liberty Utilities Central Shared Services Co. for direct billing March 2018 included a Wennsoft listing of jobs summing to $78,732.81. Audit was able to calculate the $1,002 as 30% of a line item $3,340 for Admin-Travel. Due to timing, further support was not requested.

8830-2-9868-69-5131-9211, Travel included an entry for $2,006.23. The invoice from Algonquin Power Income Fund described the activity as LUC direct billing for April 2018. The invoice total of $89,657.82 was supported with the Wennsoft listing. Audit verified the $2,006.23 to line items Travel, Accomodation, Mileage/Parking, and Vehicle Rental and expense. Additional information provided after the DRAFT detailed direct American Expense charges as well as employee expense reports.

9212 Utilities $70,075

8830-2-0000-69-5131-9212	Utilities	$ (136)
8830-2-9810-69-5131-9212	Utilities-HR	$ 4,955
8830-2-9815-69-5131-9212	Utilities-EHSS	$ 9,512
8830-2-9820-69-5131-9212	Utilities-Finance	$23,536
8830-2-9823-69-5131-9212	Utilities – Legal	$ 2,477
8830-2-9825-69-5131-9212	Utilities – Procurement	$ 9,910
8830-2-9830-69-5131-9212	Utilities-Regulatory	$ 8,671
8830-2-9835-69-5131-9212	Utilities - Energy Procurement	$ 7,433
8830-2-9860-69-5131-9212	Utilities - Executive/ Business Development	$ 3,716
	Subtotal accounts 9212	$70,075

Account 8830-2-9815-69-5131-9212, Utilities-EHSS, includes an invoice from Ready Refresh in the amount of $1,059.15. The invoice is for bottled water and past due charges, all of which were incurred from November 29, 2017 through December 24, 2017. **Audit Issue #11**

9213 Communications $173,905

8830-2-9800-69-5131-9213	Communication-IT	$112,237
8830-2-9815-69-5131-9213	Communication	$ 140
8830-2-9820-69-5131-9213	Communication	$ 7,895
8830-2-9853-69-5131-9213	Communication	$ 52,370
8830-2-9860-69-5131-9213	Communication	$ 24
8830-2-9868-69-5131-9213	Communication	$ 1,239
	Subtotal accounts 9213	$173,905

The activity in the first account $112,237 is the sum of 63 entries, identified as purchases from Liberty Utilities Canada Corp. Three of the entries were selected for review:

08/31/2018	$15,649.45
12/31/2018	$17,694.23
12/31/2018	$ 4,331.48

The second account $140, had only two entries in February, paid to Unitil. Audit questioned the entries, and was told they were utility invoices coded to the incorrect department 9213 rather than 9212.

The third account $7,895, is also the sum of entries paid to Liberty Utilities Canada Corp. The activity shows monthly entries from January through June for $73.08. In August and September, the following dollars were booked:

8/31/2018 $3,786.54
9/30/2018 $3,669.63

There was no other activity in the account. Audit requested and was provided with invoices from CenturyLink. Each invoice reflected the allocation among Liberty affiliates. However, the allocation was *higher* in both instances than what was booked to the general ledger.

$52,370 includes a debit reclass on 6/30/18 of a $12,250 credit noted in 8830-2-9854-69-5131-9214 dues and membership fees. The amount was originally booked 4/30/2018 with the description ARCOS, LLC. Per the web, "*ARCOS LLC is a software company based in Columbus, Ohio that provides an automated crew callout and resource management software system for finding, assembling and tracking repair crews for electric and gas utility companies"*. Four entries for $4,500 each were paid to Cen-Com, and five "clear utility clearing" entries were booked. The activity ran from May through December 2018. The Arcos invoice for mobile and call-out services for March 30, 2018 through March 29, 2019 should have had three months booked as a prepaid expense, or $3,062.50. **Audit Issue #15**

9214 Dues & Membership Fees $27,270

8830-2-9810-69-5131-9214	Dues & Membership Fees	$ 142
8830-2-9815-69-5131-9214	Dues & Membership Fees	$ 359
8830-2-9820-69-5131-9214	Dues & Membership Fees	$ 156
8830-2-9823-69-5131-9214	Dues & Membership Fees	$ 379
8830-2-9851-69-5131-9214	Dues & Membership Fees	$ 1,775
8830-2-9854-69-5131-9214	Dues & Membership Fees	$ -0-
8830-2-9860-69-5131-9214	Dues & Membership Fees	$24,459
	Subtotal accounts 9214	$27,270

Site 9810 $142 is comprised of two entries. One was paid to the Greater Nashua Human Resources Association, the other identified an employee. Both are immaterial.

Site 9815 $359 contains three entries, two of which were identified as Liberty Utilities Canada Corp, one to Corporate Images. All are immaterial.

Site 9820 $156 is one entry paid to Whitman, Requardt, & Associates, LLP. From the vendor's website WRALLP.com, "Whitman, Requardt and Associates, LLP is a Nationally-Recognized Engineering, Architectural, Construction Management and Environmental Firm." The invoice demonstrates subscription to the Handy-Whitman Index of Public Utility Construction Costs.

Site 9823 $379 is the net of four entries, two of which offset each other. The two remaining related to Liberty Utilities counsel.

Site 9851 $1,775 is one entry, paid to Energy Council of the Northeast. According to the Council's website, ecne.org, "*On June 27, 2019, after careful deliberation, the ECNE Board of Directors voted unanimously to dissolve the organization. Staff was instructed to cease programming and committee services on September 30, 2019 and proceed with closing down* *operations, Pursuant to Article XI, Section 1 of the Council's By Laws."* As a result of that announcement, Audit reviewed all of the entries relating to the Energy Council of the Northeast. Overall, **$23,200.66 will be non-recurring**. **Audit Issue #13**

8830-2-9800-69-5130-9210	Office Supplies-IT	510.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	853.75	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	1,260.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	1,775.80	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	1,050.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	6,800.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-69-5131-9214	Dues & Membership Fees	1,775.80	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-51-5435-5800	Operation - Engineering	853.75	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-69-5131-9215	Training	675.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-69-5131-9215	Training	6,800.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-69-5131-9215	Training	695.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9865-69-5250-9030	Customer Records & Collections Expenses	151.56	ENERGY COUNCIL OF THE NORTHEAST
		23,200.66	

Site 9854 $-0- is the net of the 4/30/2018 debit for ARCOS, LLC which was then credited on 6/30/2018. Refer to account 8830-2-9853-69-5131-9213 Communication.

Site 9860 $24,459 is the sum of 13 entries. 12 of the entries were monthly debits of $2,016.38 referenced as maintenance fee amortization. Audit noted the monthly entries represent the Edison Electric Institute annual 2018 membership fee $24,196.58. The Company correctly posted lobbying expenses of $3,771.02 to account 8830-2-9868-69-7450-4264, Political Contributions, a below the line account. However, the Company identified $515.84 in donations that should have been excluded from the 9860-69-5131-9214 Dues and Membership account (refer to Staff Data Requests 3-26 and 5-8). . The one other entry was for $262.28 for the New England – Canada Council. The donations portion of the EEI invoice and the NECC entry should be booked below the line. **Audit Issue #14**

9215 Office Supplies, Training $56,938

8830-2-9800-69-5130-9215	Office supplies & exp IT LU Headoffice	$ 153
8830-2-9800-69-5131-9215	Training	$ 12
8830-2-9801-69-5130-9215	Office Supplies & exp - Transition LU HO	$ 7,617
8830-2-9810-69-5130-9215	Office supplies & exp HR LU Headoffice	$ 925
8830-2-9810-69-5131-9215	Training	$ 9,897
8830-2-9811-69-5130-9215	Office Supplies & exp - Payroll&HRIS LU HO	$ 5,735
8830-2-9812-69-5130-9215	Office Supplies & exp - Executive LU HO	$ 2,367
8830-2-9812-69-5131-9215	L&D Training	$15,184
8830-2-9815-69-5130-9215	Office Supplies & Expense EHSS LU Head Office	$ (6,664)
8830-2-9815-69-5131-9215	Training	$ 5,229
8830-2-9820-69-5130-9215	Office supplies & exp Fin & Adm LU Headoffice	$ 16
8830-2-9820-69-5131-9215	Training	$ 195
8830-2-9830-69-5131-9215	Training	$ 1,605
8830-2-9835-69-5131-9215	Training	$ 485
8830-2-9851-69-5131-9215	Training	$ -0-
8830-2-9854-69-5131-9215	Training	$13,642
8830-2-9860-69-5131-9215	Training	$ 21
8830-2-9865-69-5130-9215	Office Supplies & Exp. - Customer Svc. LU OH	$ 179
8830-2-9868-69-5131-9215	Training	$ 341
	Subtotal accounts 9215	$56,939

8830-2-9811-69-5130-9215 Office Supplies & exp - Payroll&HRIS LU HO included seven entries from April through October, identified as "Empire Labs Allocations". Audit requested clarification of what supplies were purchased from Empire, and was told they represent charges for service award gift cards and occasionally spirit awards. The expenses sum to $4,440. **Audit Issue #14**

8830-2-9815-69-5131-9215, Training $5,229 is overstated by $1,800. Audit was provided with an invoice from Chad Hymas Communications dated 9/17/2018 in the amount of $12,000. $6,000 of the invoice was allocated to East. 30% of that was allocated to GSE, but the invoice is for a March 26-29, 2019 Safety Symposium. The invoice should have been booked to a prepayment account. **Audit Issue #15**

8830-2-9812-69-5131-9215, L&D Training $15,184 was comprised of twelve entries. Eight were identified as Liberty Utilities Canada Corp. Audit selected one entry of $4,704.43, representing 31% of the account balance. Several outside vendors' invoices were reviewed that became part of the total Liberty Utilities Canada invoice. GSE was allocated 30% of the NH portion of each. Specifically:

Ken Blanchard Companies	$8,150.18	
English Comp. Tuition	$ 951.20	
Financial Accounting	$1,044.40	
English Composition II	$1,016.25	
Intermediate Accounting	$1,044.40	
Management Systems	$1,555.00	
Principle of Management	$ 960.00	
Introduction to Marketing	$ 960.00	
	$15,681.43	* 30% = $4,704.43

Within account 8830-2-9854-69-5131-9215, Training $13,642, was an entry in the amount of $6,800. The invoice from the Energy Council of the Northeast, dated 9/2018 was for a course 10/3/2018 – 10/5/2018 for twelve Liberty employees. The invoice total of $20,400 was spread among the following:

EnergyNorth 8840	$ 1,190	
EnergyNorth 8886	$ 5,100	
GSE 8830-2-9800-69-5130-9210 Office Supplies	$ 510	**s/b Training**
GSE 8830-2-9851-69-5435-5880 Miscellaneous Distribution Expense	$ 6,800	**s/b Training**
GSE 8830-2-9854-69-5131-9215 Training	$ 6,800	
	$20,400	

Refer to the write-up regarding the Energy Council within account 8830-2-9851-69-5131-9214, Dues & Membership Fees, above.

9216 Meals, Entertainment, Postage $11,352

8830-2-9800-69-5130-9216	Meals & Entertain IT LU HO	$ 92
8830-2-9810-69-5130-9216	Meals	$ 951
8830-2-9812-69-5130-9216	Meals & Entertain LABS Training&Development	$ 31
8830-2-9815-69-5130-9216	Meals & Entertain. EHSS LU Head Office	$ 593
8830-2-9820-69-5130-9216	Meals & Entertain Fin & Adm LU HO	$ 290
8830-2-9820-69-5131-9216	**Postage**	**$ 201**
8830-2-9823-69-5130-9216	Meals	$ 3
8830-2-9823-69-5131-9216	**Postage**	**$ 36**
8830-2-9824-69-5130-9216	Meal &Entertain - Audit LU HO	$ 227
8830-2-9825-69-5130-9216	Meals	$ 34
8830-2-9830-69-5130-9216	Meals & Entertain Regulatory LU HO	$ 91
8830-2-9850-69-5130-9216	Meals & Entertain Operations LU HO	$ 795
8830-2-9851-69-5130-9216	Meals	$ 2,492
8830-2-9851-69-5131-9216	**Postage**	**$ 847**
8830-2-9853-69-5130-9216	Meals	$ 96
8830-2-9854-69-5130-9216	Meals	$ 1,359
8830-2-9854-69-5131-9216	**Postage**	**$ 1**
8830-2-9860-69-5130-9216	Meals & Entertain. - Executive LU HO	$ 2,528
8830-2-9865-69-5130-9216	Meals & Entertainment - Customer Svc. LU OH	$ 337
8830-2-9868-69-5131-9216	**Postage** Strategic plan	**$ 28**
	Subtotal accounts 9216	$11,352

It is unclear why 9216 would be used for Postage, highlighted in **bold font** above. The Postage total is $1,113 or 10% of the reported Meals amount of $11,352.

8830-2-9851-69-5131-9216, **Postage** $847 is overstated by $766.67 due to charges posted in March for p-card purchases in July and August 2017. **Audit Issue #11**

8830-2-9860-69-5130-9216, Meals & Entertain. - Executive LU HO $2,528 is overstated by $608.57 due to a farewell dinner for D. McCormick that should have been charged to EnergyNorth, below the line. The travel and reimbursement form, on which the $608.57 was identified, was part of an overall reimbursement request of $651.83. **Audit Issue #17**

Account #922 Administrative Expenses Transferred-Credit $(6,391,924) per the FERC Form 1 agrees with the filing and the general ledger. The amount represents a 12% increase over the 12/31/2017 balance. The general ledger accounts, at a high level, represent:

23 Accounts 9220 Admin Exp Tran Cr-Credit	$(5,483,205)
01 Account 9221 LU Labor Alloc Capitalized	$ (34,946)
01 Account 9222 LU Admin Alloc Capitalized	$ (193,725)
02 Accounts 9223 APUC Labor and Admin Alloc	$ (178,773)
02 Accounts 9224 LABS Labor and Admin Alloc	$ (234,285)
02 Accounts 9225 LABS Corp Service Labor&Adm	$ (87,411)
02 Accounts 9226 LABS US Bus Labor and Admin	$ (37,929)
02 Accounts 9227 LABS US Corp Labor/ Admin	$ (32,142)
02 Accounts 9228 LU Corp US Labor and Admin	$ (24,197)
02 Accounts 9229 LU Region Labor and Admin	$ (85,312)
Sum all 922x accounts	$(6,391,924) rounded

25 accounts	$(5,568,517)	agrees with Filing RR-2-1 line 87
14 accounts	$ (823,407)	included in Filing RR-2-1 920 LU line 95
	$(6,391,924)	agrees with FERC Form 1

Account #923 Outside Services Employed $2,757,506 per the FERC Form 1 reflects an increase over the prior period of 28%. The general ledger accounts for 923x agree with the FERC. The accounts are represented on two different lines within the filing Schedule RR-2-1:

8830-2-XXXX-69-5200-9230	Outside Services – 14 accounts sum to	$398,901
8830-2-0000-69-5200-9239	LU Region Admin alloc	$291,600
8830-2-9860-69-5200-9239	LU Region Admin alloc	$179,116
	Filing Schedule RR-2-1 for account 923	**$869,618**
8830-2-0000-69-5200-9231	Outside services LU HO Allocations	$646,760
8830-2-0000-69-5200-9232	Outside services APUC HO Allocations	$101,616
8830-2-0000-69-5200-9234	LABS NonLabour Allocations	$302,301
8830-2-0000-69-5200-9235	LABS Corporate Service non-labour allctn	$441,059
8830-2-0000-69-5200-9236	LABS US Bus admin alloc	$ 90,168
8830-2-0000-69-5200-9237	LABS US Corp admin alloc	$150,763
8830-2-9800-69-5200-9237	LABS US Corp Admin Allocations	$ 9,419
8830-2-9811-69-5200-9237	LABS US Corp Admin Allocations	$ 4,512
8830-2-9812-69-5200-9237	LABS US Corp Admin Allocations	$ 3,773
8830-2-9821-69-5200-9237	LABS US Corp Admin Allocations	$ 1,285
8830-2-9825-69-5200-9237	LABS US Corp Admin Allocations	$ 1,916
8830-2-9827-69-5200-9237	LABS US Corp Admin Allocations	$ 341
8830-2-9860-69-5200-9237	LABS US Corp Admin Allocations	$ 5,368
8830-2-0000-69-5200-9238	LU Corp US Admin alloc	$109,977
8830-2-9800-69-5200-9238	LU Corp US Admin Allocations	$ 10,599
8830-2-9820-69-5200-9238	LU Corp US Admin Allocations	$ 671
8830-2-9822-69-5200-9238	LU Corp US Admin Allocations	$ 3,953
8830-2-9824-69-5200-9238	LU Corp US Admin Allocations	$ 4,384
8830-2-9828-69-5200-9238	LU Corp US Admin Alloc	$ 53
8830-2-9865-69-5200-9238	LU Corp US Admin Allocations	$ (1,055)
8830-2-9870-69-5200-9238	LU Corp US Admin Allocations	$ 28
	923x accounts included within the 920 LU RR-2-1 line 95	**$1,887,889**
Total general ledger accounts 923x	(rounded)	**$2,757,507**

8830-2-XXXX-69-5200-9230 Outside Services – 14 accounts sum to $398,901

Account 8830-2-9800-69-5200-9230 Outside services-IT, part of the 14 accounts totaled for the 923 summary, reflects eight amortization entries amounting to $20,457. Five entries described as Liberty Utilities Canada Corp. amount to $62,194. Four entries summing to $450 relate to services purchased from Liberty Utilities Service Corp.

Account 8830-2-9801-69-5200-9230 Outside Services – Transition, also part of the 14 accounts, reflects 12 monthly entries totaling $12,559, all paid to Liberty Utilities Canada Corp.

Account 8830-2-9810-69-5200-9230 Outside services-HR contains 91 entries. This account is also part of the 14 above. 20 entries representing accruals and reversals $5,671

8830-2-9820-69-5200-9230 Outside services-Finance and Admin, totaling $188,240 is also part of the 14 accounts. The majority of the expense, $120,400 was noted to be audit fee accruals. The accruals are offset to 8830-2-0000-20-2110-2420, Miscellaneous Accrued Liabilities for Ernst & Young and KPMG for standard audit work, repair study, and tax services. The 2017 total audit work was $138,354.98, posted to both the liability account and this 9230 account. Based on the information provided for 2018, the $120,400 is GSE's allocated portion. Also, the Company indicated that the "repair study" occurs annually.

23 entries relating to Staff Hunters, amounting to $19,269 were noted, in addition to other entries. Audit inquired about the number of entries, and was told that the payments were for temporary contractor employees.

8830-2-9823-69-5200-9230 Outside services-Legal, $54,620 includes many outside firms. Details are below:

Alfano Law $1,297
Wilson, Dawson, Brett $13,154 – investigate possible litigation **Audit Issue #13**
Pastori Krans, PLLC $15,424 – annual workers' compensation rpt to NH DoL and defending against a lawsuit in federal court. $13,872 should be considered non-recurring. **Audit Issue #13**

Orr & Reno $864
Devine& Millimet $1,083
Gallagher Callahan $1,500

Concentric Energy $1,499 regarding possible purchase of a third party's assets. **Audit Issue #13**

Eagle Tribune $5,277
Union Leader $127
Valley News $1,814
These publications relate to Orders of Notice and other Commission related documents.

Grafton, Hillsboro County $920
Rockingham County Sheriff $560
Rockingham County Supr Ct $2,600
Sullivan County Sheriff $56
Sullivan County Superior Ct $260
Sheriff fees at $56 per entry, relate to serving customers with collection suits. Superior Court fees at $260 per entry are the court filing fees for collection suits filed against customers with large past due balances.

Iron Mountain	$2,401 – offsite records storage vendor
Liberty Utilities Canada	$480 – time charged to GSE by Liberty lawyers outside NH
Pacer Service Center	$8 – fee to access bankruptcy court records online
S. Patnaude	$2,918
S. Robidas	$2,235
Transcription services for PUC hearings	
Sinville	$189 Liberty clothing for an employee

One entry in the amount of $11,327 from Pastori Krans was reviewed. Services provided in October 2018 related to a confrontation with a customer, and litigation.

An invoice in the amount of $601.84 dated 1/3/2018 from S. Patnaude for transcription services performed in October and December 2017 was originally posted to account 8830-2-9823-69-5130-9210, Office Supplies-Legal. On 4/30/2018, the amount was transferred from that account to this 9230 account. The amount is over-stated by $300.92, as the invoice was for both ENG and GSE. Further, the expense should have been booked to the expense accounts associated with the DE 17-136, 2018 – 2020 CORE New Hampshire Statewide Energy Efficiency Plan. **Audit Issue #17**

An invoice dated 12/28/2017 from S. Robidas relating to docket DE 16-576, Net Metering, was for transcription services at hearings in March 2017. Liberty received the invoice prior to year-end 2017. The $1,701.66, originally booked to 8830-2-9823-69-5130-9210, Office Supplies-Legal was transferred from that account to this 9230 account on 4/30/2018. **Audit Issue #11**

Based on a review of the invoices provided, the $54,620 is overstated by:

ENG portion of Patnaude invoice	$ 300.92	**Audit Issue #17**
GSE portion that should be in CORE	$ 300.92	**Audit Issue #17**
Robidas outside of test year	$ 1,701.66	**Audit Issue #11**
Concentric non-recurring	$ 1,498.75	**Audit Issue #13**
Wilson, Dawson, Brett non-recurring	$13,153.58	**Audit Issue #13**
Pastori Krans non-recurring	$13,872.00	**Audit Issue #13**
Recommended Adjustment	**$30,827.83**	

Activity included only entries related to Liberty Utilities Canada in account 8830-2-9824-69-5200-9230, Outside Services - Internal Audit $5,041. Detailed review was not done.

Activity included only entries related to Liberty Utilities Service Company in the following accounts:

8830-2-9830-69-5200-9230	Outside services-Regulatory	$11,530
8830-2-9835-69-5200-9230	Outside services-Energy Procurement	$ 303

Activity noted was a combination of Liberty Canada and LUSC only:

8830-2-9850-69-5200-9230	Outside services-Operations	$ 501
8830-2-9865-69-5200-9230	Outside services-Customer service	$(40,473)

There was only one entry in account 8830-2-9853-69-5200-9230, Outside Services in the amount of $226.73, paid to the Ninety Nine Restaurant. This entry appears to be booked in the incorrect account, and should be meals instead of outside services. There is no net impact on the income statement.

8830-2-9854-69-5200-9230 Outside Services $640 is the total for the account. The activity was recording fees paid to three different NH County Registries of Deeds. The fees were recorded to this account in error.

The credit entries in account 8830-2-9865-69-5200-9230, resulting in the $(40,473) were credited to the wrong account. The entries should have been booked to 8830-2-9865-69-5200-9220, as they were overhead credits.

Account #924 Property Insurance $1,505,054 per the FERC Form 1 demonstrates a reduction of 1% over the prior year. The filing schedule RR-2-1, page 3 of 5, line 89 agrees with the FERC. Schedule RR-3-04 reflects $1,500,000. The $1,500,000 amount, per the general ledger, is debited $125,000 monthly, and is a source of funding for the major storms through credits to account 8830-2-0000-20-2142-2548 Current Regulatory Liability-Storm Cost. The liability account is discussed in detail in the 2018 Storm Fund audit report that was issued on November 20, 2019. Audit verified the total to accounts 8830-2-0000-69-5280-9240, Property Insurance and 8830-2-9820-69-5280-9240, Insurance. For the first six months of the year, the first account was used. The activity was reclassified to the second account, which was used for the remainder of the year.

Account #925 Injuries and Damages $750,029 per the FERC Form 1 reflects an increase over the prior period expense total $288,518, or 212%. The filing schedule RR-3-04 shows the policies running from mid-2018 through mid-2019 sum to $697,543 with $77,112 capitalized.

Audit requested copies of insurance policy cover sheets for any and all types of insurance. The only detail provided was the AEGIS Directors and Officers Liability Insurance Policy was provided for the period 6/1/2018 – 4/1/2019 with a premium of $183,260. The policy was issued to Algonquin Power & Utilities Corp., and the allocation to affiliates is unknown. This policy was not included on the filing schedule 3-04. Cover sheets for all of the policies listed on the filing were not provided to Audit. However, it is understood that the cover sheets were provided within the context of data requests in this docket.

The $750,029 was verified to the general ledger accounts:

8830-2-9851-69-5280-9250	Injuries & Damages	$ 657
8830-2-9823-69-5280-9250	Injuries & Damages	$123,963
8830-2-9820-69-5280-9250	Injuries & Damages	$625,321
8830-2-0000-69-5280-9250	Injuries & Damages	$ 88
		$750,029

<u>Account #926 Employee Pensions and Benefits $4,240,545</u> per the FERC Form 1 is a reduction from the prior period of 11%. The general ledger balance agrees with the filing schedule RR-3-03. Extensive data requests were issued and answered regarding the pensions and benefits.

8830-2-9810-69-5043-9260	Employee Pension & Benefits - 401K	$ 121,975
8830-2-9810-69-5044-9260	Group Benefits	$1,809,037
8830-2-0000-80-8551-9261	Non-service pension costs	$ 481,604
8830-2-0000-69-5044-9262	FAS 106 (Retiree Health Care)	$ -0-
8830-2-0000-80-8551-9262	Non-service OPEB costs	$ 804,971
8830-2-9810-69-5043-9262	ESPP Expense	$ 13,520
8830-2-9810-69-5044-9262	FAS 106 Retiree Health Care	$ 239,508
8830-2-9810-69-5043-9263	Opt-Out Expense	$ 11,319
8830-2-9810-69-5043-9267	Pension	$ 258,019
8830-2-0000-69-5043-9267	Pension	$ -0-
8830-2-9810-69-5043-9268	Pension Plan Expenses	$ 3,004
8830-2-9810-69-5044-9268	Group Life	$ 5,206
8830-2-9810-69-5043-9269	401K Match	$ 492,382
		$4,240,545

- Employee Pension & Benefit $121,975 reflected monthly entries offset to 8830-2-0000-20-2810-2606, Due to Liberty Energy NH.
- Group Benefits $1,809,037 were also offset to Due to Liberty Energy NH. One credit entry in account 8830-2-9810-69-5044-9260, $(53,838.90) debited a new account 8830-2-0000-20-2760-2539 FAS 112.
- $1,400,604 pension amortization debit entries to Non-service Pension Costs were offset to 8830-2-0000-10-1930-1826 FAS 158 Pension and $(918,999.96) pension amortization credits were offset to monthly entries of $19,250 to 8830-2-0000-20-2930-2285 Long-term Pension Obligation and $57,333.33 to 8830-2-9810-69-5043-9267 Pension.
- Activity in the FAS 106 (Retiree Health Care) account that shows $-0- was reclassified to 8830-2-0000-80-8551-9262 $349,620 and $166,492.69 to 8830-2-9810-69-5044-9262 FAS 106 Retiree Health Care. The activity indicated OPEB amortization.
- Non-service OPEB costs of $804,971.04 is the sum of twelve monthly OPEB amortization entries of $13,673.67; the one reclassification of $349,620; and six OPEB amortization entries of $58,270 with one true up credit of $(58,353).
- ESPP, Employee Stock Purchase Program expense of $13,519.90 reflected twelve debit entries offset to Due to Liberty energy New Hampshire, 8830-2-0000-20-2810-2606.
- Audit verified the 8830-2-9810-69-5044-9262 FAS 106 Retiree Health Care service cost of $239,508 to the 2018 GSE portion of the OPEB actuarial report.
- The Opt-out Expense reflected twelve debit entries, offset to 8830-2-0000-20-2810-2606.
- Pension $258,018.72 is the sum of the reclassification from 8830-2-0000-69-5043-9267 and six monthly pension amortization entries, with three true-up credit adjustments.
- The 8830-2-0000-69-5043-9267 Pension zero balance is the result of pension amortization entries reclassified to the Non-service Pension Costs 8830-2-0000-80-8551-9261 and 8830-2-9810-69-5043-9267.
- Pension Plan Expenses $3,004 is the net of three minimal entries.

- Group life monthly activity was offset to Due to Liberty Energy NH, account 8830-2-0000-20-2810-2606.
- 401k Match $492,382 was also offset to Due to Liberty Energy NH, account 8830-2-0000-20-2810-2606.

Account #928 Regulatory Commission Expenses $453,765 per FERC Form 1 is a reduction over the 2017 balance of 1%, and agrees with the filing schedule RR-2-1. The total was also ties to general ledger account 8830-2-9830-69-5610-9280, Regulatory Commission Expense.

Audit reviewed the PUC fiscal year assessments for 2018 and 2019:

	Electric	IESR	
2018 Quarter 3	$ 91,730	$36,817	
2018 Quarter 4	$ 91,730	$36,817	
2019 Quarter 1	$ 45,185	$15,392	
2019 Quarter 2	$ 99,072	$37,022	
	$327,717	$126,048	$453,765 combined

The IESR is the imputed energy suppliers' revenue.

Account #930.2 Miscellaneous General Expenses $7,142 per the FERC Form 1 reflects an 18% reduction from the prior year expense total. Audit verified the total to the filing schedule RR-2-1, page 3 of 5, line 93 and to general ledger account 8830-2-0000-69-5615-9302. There were 17 entries in the account, averaging $420. The entries related to employee expenses, first aid, two small medical items, and a small Transportation Advisor, Inc. entry.

Account #931 Rents $155,075 per the FERC Form 1 shows a decrease from the prior year of 7%. The total on the FERC Form 1 was verified to:

8830-2-9865-69-5110-9310	Rent Expense	$ 9,213
8830-2-9860-69-5110-9310	Rent Expense	$ 3,756
8830-2-9851-69-6125-9310	Rental Expense – Intercompany	$ 4,157
8830-2-9823-69-5110-9310	Rent Expense	$ 5,416
8830-2-0000-69-6125-9310	Rental Expense – Intercompany	$132,533
		$155,075

The two Intercompany accounts, $4,157 and $132,533 are included within the filing schedule RR-2-1, line 95 "920LU". Refer to the details within this report for 920LU. The $132,533 represents GSE's portion of the Londonderry office rent and the Concord Training Center. The Londonderry Lease entries sum to $54,744. The Concord Training Center monthly entries sum to $84,822.14, with adjustments of $(7,032.90).

The remaining small dollar accounts represent departmental allocations of the Concord office space rentals from the Ciborowski Family Trust. The total of $18,385 agrees with RR-2-1 for account 931.

Taxes - Federal Income Tax

On January 1, 2014, a Tax Sharing Agreement went into effect, executed by the Vice President of Finance (of Algonquin). The Company indicated the agreement has not changed. The agreement represents that the consolidated returns will be compiled, with the members providing to the Parent the equivalent tax payment as if the member had filed individually. The agreement Schedule A reflected a listing of 32 original members, of which Liberty Utilities (Granite State Electric) Corp was one. Each has a specific Employer Identification Number.

Audit requested copies the federal tax returns filed by Liberty Utilities (America) Co for the test year. Pro forma federal form 1120 tax returns for Granite State were provided for 2017. The federal tax return detail was provided on May 14, 2019. The 2017 Federal return was filed on October 15, 2018 by KPMG. The Company anticipates filing the 2018 Federal Income Tax return by mid-October. For the 2018 tax year the Company's statutory tax rate was lowered from 35% to 21% as a result of the Tax Cut and Jobs Act. The legislation allows utilities an exemption from deductibility of interest and 100% qualified expensing of property. The tax act does not permit utilities to immediately expense 100% of the cost of new investments in qualified property. The overall taxable income was a loss for Liberty Utilities (America) Co and Subs with an overpayment for $810,000 identified. The overpayment was credited to the 2018 estimated tax. The consolidated schedule 1120 page 1, statement 3 reflects the GSE portion as a taxable net income of ($12,142,814) based on:

Gross sales	$ 95,564,754	agrees with general ledger and FERC
Cost of goods sold	$ (55,816,773)	
Interest Dividend Income	$ 40,863	agrees with general ledger and FERC
Other Income	$ 59,883	
Net loss from Form 4797	$ (477)	
Salaries and Wages	$ (13,964,385)	
Bad Debts	$ (33,206)	
Repairs and Maintenance	$ (1,728,322)	
Rents	$ (166,523)	
Taxes and Licenses	$ (5,388,161)	
Interest	$ (2,055,510)	
Depreciation	$ (14,241,382)	
Other Deductions	$ (14,413,575)	
Taxable Income	$ (12,142,814)	

The overall net income per the general ledger and FERC for 2017 was $5,682,050.

Calculation of the GSE portion of the Alternative minimum taxable income on statement 123 reflected a total of ($12,183,599).

Schedule M2, statement 114 reflects the following:

Balance at beginning of year	$ 3,944,181	
Net income per books	$ 9,582,809	
Balance at end of year	$13,526,990	unappropriated retained earnings per proforma 2017 GSE 1120 return.

Schedule L, statement 54 Beginning and schedule 60 Ending, of the 2017 federal return summarized GSE:

	Beginning	Ending
Cash	$ 40,211	$ 41,970
Trade Notes and A/R	$ 12,775,270	$ 14,492,391
Less Allowance for Bad Debt	$ (1,305,839)	$ (1,083,527)
Inventories	$ 1,928,723	$ 2,242,637
Other Current Assets (1)	$ 8,887,484	$ 14,085,164
Bldgs and Other Depreciable Assets	$168,877,009	$187,098,171
Less Accumulated Depreciation	$(23,237,236)	$(31,290,511)
Other Assets	$ 14,798,511	$ 14,893,911
Total Assets	$182,764,133	$200,480,206
Accounts Payable	$ 0	$ 7,623,732
Other Current Liabilities (2)	$ 22,893,500	$ 25,449,843
Mtg, Bonds, Notes Payable >1yr	$ 32,000,000	$ 31,966,525
Other Liabilities	$ 26,468,531	$ 22,614,705
Common Stock	$ 99,024,903	$ 99,024,903
Retained Earnings	$ (3,944,181)	$(13,526,990)
Adjustment to Shareholder Equity	$ (1,566,982)	$ (273,508)
Total Liabilities and Equity	$182,764,133	$200,480,206

(1) Other Current Assets were noted on statement 74 to include:

Prepaids	$ 2,013,258	$ 1,098,632
Current Regulatory Assets	$ 3,703,173	$12,809,741
Income Tax Receivable	0	176,791
Advances to Affiliates	$(3,171,053)	$ 0
Sub-total	$ 8,887,484	$ 14,085,164

(2) Other Current Liabilities were noted on statement 89 to include:

Accrued Liabilities	$ 9,337,230	$ 9,416,096
Current Portion of Other LTD	$ 782,605	$ 1,203,236
Current Portion Regulatory Liab	$12,630,873	$14,830,511
Interest Payable on LTD	$ 142,792	$ 0
Sub-total	$22,893,500	$25,449,843

Audit verified that the reported GSE portions of the Liberty Utilities (America) Co federal tax return agree with the pro-forma GSE stand-alone federal tax return. Certain items were verified to the general ledger of GSE, without exception.

The Company provided a copy of the Liberty Utilities (America) Co. & Subs statewide tax returns for the calendar year 2017. The 1,103-page document, prepared by KPMG, LLP Toronto, included state specific returns for Arizona, Arkansas, California, Georgia, Illinois, Iowa, Kansas, Massachusetts, Missouri, New Hampshire, Oklahoma, and Texas. For Liberty Utilities (America) Co, the NH BT-Summary reflected a net overpayment for the tax year

12/2017 of $388,310 that was filed on November 16, 2018. The Company has not filed its 2018 NH BT-Summary and anticipates filing the return in October or November.

The Company indicated the 2016 Liberty Utilities (America) and subsidiaries tax return was audited by the IRS. The Scope of the Audit was treatment regarding CIAC specifically, the special treatment under Regulation Section 1.1118-2 allowing exclusion from taxable income of CIAC received by water utilities before tax reform. The audit did not apply to GSE nor were any of the recommended adjustments by the IRS.

State Income Taxes

The 2017 Liberty Utilities (America) Co. & Subs information was provided on May 14, 2019. The BET was overpaid by $388,310, with the overpayment applied to the 2018-estimated tax. The overpayment was the result of:

The calculated BET	$ 335,218
Less estimated tax payments	$(635,000)
Less carryover from prior tax period	$ (88,528)
Net overpayment	$(388,310)

The NH Business Profits Tax Return indicated that there is a net operating loss deduction (NOLD) to be carried forward in the amount of ($66,801,986), at the Liberty Utilities (America) Co level. Use of a portion of the NOLD resulted in a loss for the year. The net income noted on statement 3, $12,142,814 agrees with the federal return. Statement 11 reflects 29 other members included in the water's edge combined group.

General Ledger Accounts Associated with State and Federal Income Taxes

The Company stated there were no off the book entries regarding Federal and State Income Taxes as was identified in a past PUC Audit Report associated with docket DE 13-063. The Company has not filed 2018 State or Federal Income Taxes but provided Audit with the tax worksheets and tax entries complied by the Tax Manager in Oakville.

8830-2-0000-10-1230-1903 Accum Def. Inc. Taxes-Current	$0
8830-2-0000-10-1800-1903 Accum. Def. Inc. Taxes-Long Term	$0

Activity during the test year within the Current account reflected journal entries for less than one dollar. Further review was not conducted, as the amount is immaterial. There was no activity within the Long-term account. The offsetting account is 8830-2-0000-20-2730-2830 Accum Def. Income Taxes Liability-Current.

8830-2-0000-20-2965-2830 Accum. Def. Inc. Taxes-Liab Long-term	($9,974,690)
8830-2-0000-10-1930-2830 ADIT-Other Regulatory Asset	$328,131
8830-2-0000-20-2142-2830 Excess ADIT Regulatory Liab-Short Term	($78,246)
8830-2-0000-20-2910-2830 Excess ADIT Reg. Liability-Long Term	($5,220,094)
8830-2-0000-20-2730-2830 ADIT-Liab.-Current	$0
Total	($14,944,899)

Net GSE Accumulated Deferred Income Tax was verified to FERC Form 1 and the filing schedules RR-5 and RR-2-1.

Activity within the accounts was reviewed and verified to tax worksheets prepared by the Oakville Tax Manager. Offsetting entries were noted to Deferred State Income Tax Expense, Deferred Federal Income Tax Expense, and OCI FASB 158 Pensions account 8830-2-0000-30-3800-2192.

8830-2-0000-80-8720-4090 State Income Tax expense	$47,680
Verified to FERC Form 1 Account 409.1	

8830-2-0000-80-8710-4090 Federal Income Tax Expense	$195,457
Verified to FERC Form 1 Account 409.1	

8830-2-0000-80-8760-4101 Def SIT Expense	$ 208,198
8830-2-0000-80-8760-4104 Def FIT Expense	$2,360,161
Total verified to GSE FERC Form 1 account 410	$2,568,359

Audit reviewed the Company response to Staff Data Request 4-1 regarding the excess ADIT Regulatory Liability. In the response, the Company indicated the

$5,298,340/20.87 = $253,874 amortization figure on Filing Schedule RR-3-5
was booked to the two excess ADIT GL accounts 8830-2-0000-20-2910-283 and 8830-2-0000-20-2142-2830 based on an estimate. The updated actual Excess ADIT amount should be $5,640,070. The Company in the response indicated they included the non-grossed up amount $4,092,292, before tax gross up/20.86692 years = $196,018/year, as indicated on the RR-3-5 Filing Schedule. The non-grossed amount is being amortized to an amount that is already grossed up in the rate case filing to avoid a double tax gross-up. The Company did include the $1,549,779 tax gross up amount on the books.

Property Taxes

For the test year, the Company expensed $3,459,410. Refer to the filing schedule RR-3-11. Audit reviewed the second issue 2017 municipal property tax invoices for the 25 communities in which the Company has taxable assets, and both first and second issue invoices for 2018. Audit verified the reported expense and prepayment figures to the general ledger accounts below:

8830-2-0000-69-5040-4080 Social Security Taxes	$ 576,032
8830-2-0000-69-5041-4080 Federal Unemployment taxes	$ 4,913
8830-2-0000-69-5041-4082 Tx Oth Inc Tx-St Unempl Tax	$ 18,893
8830-2-0000-69-5042-4080 Medicare	$ 140,683
8830-2-9820-69-5680-4080 Property Tax RR-3-11	$4,673,568
Taxes Other than Income RR-2 line 15	$5,414,088

8830-2-0000-10-1240-1650 Prepaids	$ 12,804
8830-2-0000-10-1240-1653 Prepaid Taxes-Mun-Property-Oper	$ 1,068,427
Prepayments RR-4 line 15	$ 1,081,231

Audit requested and was provided with all municipal property tax invoices for the years 2017 and 2018, as well as the State of New Hampshire utility property tax invoices. The result of that review is demonstrated below, per Audit calculation that was done by multiplying the town mill rate by property valuation on the town property tax invoice:

½ of 2017 second issue municipal	$ 912,102	
Complete 2018 first issue municipal	$2,801,490	
½ of 2018 second issue municipal	$ 955,332	
Subtotal municipal	$4,668,924	
2018 State of NH Utility Property tax	$ 883,175	
Total property tax calculated expense	$5,552,100	$878,532 higher than GSE expensed

The calculated property tax expense for the year is $878,532 more than the amount booked to the general ledger. This is due to the Company calculating the tax expense a different way as discussed in subsequent paragraph. However, Audit noted an increase in the property tax expense based on a proformed expense of $4,742,551 or an increase of $124,983 over the general ledger test year expense of $4,673,568. Refer to Attachment SEM/HSG-2 Schedule RR-3-11 page 1 of 1. The proformed property tax figure is based on the 2018-second installment multiplied by two.

The Company books property taxes to the prepaid account using a property tax schedule for 2017 and 2018 based on Towns' Fiscal and Calendar years. The Company used an estimate for November 2018 based on October 2018 calculation due to the plant accountant being out of the country. The amounts were reconciled in December 2018. The monthly debit entry for Calendar Towns is $172,250.70 and $201,912.24 for Fiscal Towns. This is $374,163 per month for both entries. The Company's Accounts Payable department determines whether a town is a Fiscal or Calendar town.

For towns that are on a calendar year basis, the latest property tax bill is used to record the property tax expense for the next 6 months (assuming the time covered on the invoice is 6 months. Towns on the fiscal year basis, the property tax expense is calculated by taking the balance of the prepaid property tax expense, calculating the actual months of prepaid taxes and the difference represents property tax expense for the month. The towns of Derry, Hanover, Londonderry, Salem, and NH DRA are on the Fiscal Year Calendar.

The recurring monthly entries are offset with credits to two accounts:

Property Tax Expense 8830-2-9820-69-5680-4080	$374,163	
Tax Accrual-Municipal Property 8830-2-0000-20-2530-2364		$174,973
Prepaid Taxes-Mun-Property-Oper 8830-2-0000-10-1240-1653		$201,912

All entries in the Tax Accrual account netted to zero at year-end. The Prepaid Taxes account began the year with $1,011,625, and reflected total debits of $9,950,734 and credits of $9,893,932, for a year-end balance of $1,068,427.

Audit reviewed the general ledger activity and noted that actual payments made to specific municipalities are debited to the prepaid account, and credited to 8830-2-0000-20-2810-2606, Liberty Energy New Hampshire.

Adjustments to the prepaid account and accrual account were booked in June and December, based on actual payments made. The final entry in the Tax Accrual account was a debit of $1,911,091 that zeroed the account and was offset to the Prepaid Taxes account.

The Company included State Education Tax in the property tax expense that should not have been included. The state education calculations were performed by Audit. The following properties from the 2017-second issuance included the state education tax. Charlestown Parcel 103-050, Langdon Parcel 1-00000-0, Lebanon Parcel 103-14, Salem Parcels 89-1099, 114-10116, 116-9915, and 116-9915-2

The following properties from the 2018 first issuance and second issuance included State Education Tax Langdon Parcel 1-00000-0, Lebanon Parcel 103-14, Salem Parcels 89-1099, 114-10116, 116-9915, and 116,9915-2. There were numerous other instances of State Education Tax included but many of the other properties had an immaterial amount. **Audit Issue #20**

Town	Parcel	Date	State Ed. Tax	
Charlestown	103-050	2017 2nd	$60.95	
Langdon	1-00000-0	2017 2nd	$1,352.40	
Lebanon	103-14	2017 2nd	$4,286.50	
Salem	89-1099	2017 2nd	$94.28	
Salem	114-10116	2017 2nd	$89.03	
Salem	116-9915	2017 2nd	$1,404.02	
Salem	116-9915-2	2017 2nd	$106.70	
			$7,393.88	***50% = $3,696.94**
Langdon	1-00000-0	2018 1st	$2,705.07	
Lebanon	103-14	2018 1st	$4,286.50	
Salem	89-1099	2018 1st	$188.56	
Salem	114-10116	2018 1st	$178.07	
Salem	116-9915	2018 1st	$2,808.05	
Salem	116-9915-2	2018 1st	$213.41	
			$10,379.65	**at 100% = $10,379.65**
Langdon	1-00000-0	2018 2nd	$1,358.74	
Lebanon	103-14	2018 2nd	$4,232.47	
Salem	89-1099	2018 2nd	$95.52	
Salem	114-10116	2018 2nd	$90.21	
Salem	116-9915	2018 2nd	$1,422.50	
Salem	116-9915-2	2018 2nd	$108.11	
			$7,307.55	***50% = $3,653.78**
Total All				**$17,730.37**

The Company included a 2018 Second Issuance for the Town of Franconia that is not listed in the GSE service tariff. The town property tax bill was for $130 that was booked to the prepaid expense account 8830-2-0000-10-1240-1653. The invoice indicated the property had building property valued at $7,800. The Company indicated the property was for a transmitter/receiver/antenna that was retired during 2018. This is non-recurring. **Audit Issue #13**

Audit reviewed two invoices during 2018 for Springfield that totaled $268 in prepaid property taxes. The 2018 first issuance was for $124 and the second issuance was for $144. The Company booked $314 in prepaid property taxes for Tilton. The property tax bill was for the 2018-second issuance. Both towns are not included within the Company service territory. The Company indicated the property in both communities are two way radio systems that were both placed into service in May 2014 each for $13,979. The Company did not have any business case/other backup documentation from engineering/IT. The purpose of the radio systems is likely to be related to cell tower locations/strategic placement for coverage between service territories that are south and west. This is coverage for vehicles travelling between Lebanon to Salem. The gas division helps to augment electric operations during storms/damage assessments. EnergyNorth benefits from being able to communicate between personnel in gas yards. The invoice was not split between EnergyNorth 70% and Granite State Electric 30% but the amounts are immaterial. The Company going forward should verify the allocation is correctly done between the two Companies.

The estimated state property tax payments are due quarterly. During 2018, quarterly estimates of $220,793 were paid, based on the prior year's notice of valuation $883,172. The final quarterly payment of $220,793 was paid in 11/2018 for the tax period October-December 2018. In December 2018, the notice of valuation indicated that the actual tax was $962,839, or $240,710 quarterly. On December 31, 2018 an additional $79,667 was paid, bringing the total paid for the 2018 final tax period to the actual $962,839 as indicated on the 2018 valuation notice.

The Company indicated there were no abatements granted by towns during 2017 and 2018.

Penalties

Audit reviewed the GSE Account 8830-2-0000-69-7450-4260 Penalties for the test year. The year-end balance of $1,380 was a late fee for failing to pay the 2017 NH DRA quarterly estimated tax payment in a timely manner for estimated property taxes. The penalty was booked to the general ledger in February 2018 below the line and is not on the filing schedules.

Electricity Consumption Taxes

Audit requested and was provided with copies of the 2018 monthly Electronic Consumption Tax (ECT) returns (Form DP-133) filed with NH Department of Revenue (DRA) which for 2018 totaled $505,778, based on 919,595,328kWh reported for the year. Effective

January 1, 2019 RSA 83-E:2 repealed in 2017, 156:224 the Electricity Consumption that imposed a Consumption Tax of $.00055 per kilowatt-hour has been repealed.

The tax is paid by the consumers and collected and remitted to the New Hampshire Department of Revenue by distribution companies. The returns are due on or before the 15th day of the second month following the close of the taxable month (unless approved to file quarterly). No estimated payments are required. Audit verified that the 12/31/2018 balance in account 8830-2-0000-20-2550-2416, Tx Coll Pay-Consumption Tax, $43,247 represents the December 2018 DP-133 without exception.

Income Tax Receivable

Audit reviewed the GSE Account 8830-2-0000-10-1163-1430 Income Tax Receivable that indicated there was an $188,284 year-end tax refund credit entry. Audit asked the Company how the refund entry for 2018 income tax is allocated to Granite State Electric within the Liberty Utilities (Americas) framework. The Company stated the current NH tax expense attributed to Granite State Electric per the 2017 tax return was $99,215. This same amount was used to estimate the 2018 state tax expense. The New Hampshire tax expense booked to Granite State Electric was overstated at $188,284. Out of this adjustment only $99,215 is applicable to Granite State. Accordingly, an adjustment of $89,069 should be made to the Granite State Income Tax Receivable, and Income Tax Expense for 2018. The adjustment will be booked in 2019 the Company indicated. The filing will need to be adjusted accordingly. **Audit Issue #21**

Audit Issue #1
Presentation of Filing does not Agree with FERC Form 1

Background

Audit reviewed the filing schedule RR-4, which shows a balance sheet total of $230,188,584, and compared it to the FERC Form 1 balance sheet total of $204,902,817.

Issue

The filing schedule RR-4 balance sheet total is	$230,188,584
The FERC Form 1 balance sheet total is	$204,902,817
Presentation difference	$ 25,285,767

Audit traced the difference to the location of five specific accounts:

Account Number	Account Title	Dr/(Cr) Balance	Asset/Liab Filing RR-4	Asset/Liab FERC Form 1
8830-2-0000-20-2810-2635	Due to Cogsdale	$ 24,499,395	Asset	Liability
8830-2-0000-20-2810-2639	Due to LUCentral Service	$ 238,886	Asset	Liability
8830-2-0000-20-2810-2079	Due to LU Canada	$ 249,582	Asset	Liability
8830-2-0000-20-2111-2420	Unapplied Payments	$ (296,994)	Liability	Asset
8830-2-0000-20-2142-2543	EAP Marketer Discount	$ 910	Asset	Liability

Recommendation

The Company is reminded that compliance with FERC, not GAAP, is required for regulatory accounting. Each of the above accounts, regardless of the balance, is identified as a liability account and should be reflected as such.

Company Response

The Company is aware of its accounting requirements for both FERC and GAAP purposes and notes that the Audit Staff has not stated that any accounting of the underlying transactions has been inappropriate.

The identified general ledger accounts are set up as liabilities, however, they are associated with other general ledger accounts with similar financial transactions and are appropriately grouped with those accounts for reporting purposes.

For example, all Due To accounts represent transactions between affiliate companies, and are netted for reporting purposes as the intercompany billing transactions and payments are processed between the companies throughout the month.

Accounts Payable to Associated Companies (234):	
8830-2-0000-20-2170-2603 I/C Interest Payable - LU CO.	(323,622.43)
8830-2-0000-20-2810-2079 Due to Liberty Liberty Utilities Canada	249,582.35
8830-2-0000-20-2810-2596 Due to APUC	(68,254.90)
8830-2-0000-20-2810-2603 Due to LU Co.	(250.02)
8830-2-0000-20-2810-2606 Due to Liberty Energy New Hampshire	(34,625,532.23)
8830-2-0000-20-2810-2626 Due to Liberty Utilities America Co	(1,320,220.44)
8830-2-0000-20-2810-2635 Due to COGSDALE	24,499,394.88
8830-2-0000-20-2810-2639 Due from Liberty Utilities (Central) Services Corp	238,886.44
Total Accounts Payable to Associated Companies (234)	(11,350,016.35)

The Unapplied Payments account (8830-2-0000-20-2111-2420) is netted against the Customer Accounts Receivable balance to provide a more accurate receivable balance. The account represents payments received from customers which have not yet been applied to the customers' accounts.

Customer Accounts Receivable (142):	
8830-2-0000-10-1101-1420 Customer Accounts Receivable	12,634,537.69
8830-2-0000-10-1101-1421 Customer AR-Misc Billing	714,250.46
8830-2-0000-20-2111-2420 Unapplied Payments	(296,994.22)
Total Customer Accounts Receivable (142)	13,051,793.93

The EAP Marketer Discount account (8830-2-0000-20-2142-2543) is netted against the System Benefits Charge (EAP) account (8830-2-0000-20-2142-2542) as they both represent the net EAP activity and account balance. The EAP Marketer Discount account was established to separately record the EAP discounts for the third party supplier portion of eligible customers' monthly bills. The account should not be considered an asset simply because the balance is in an asset position. The debit balance is due to the billing credits applied to the customers' bills.

8830-2-0000-20-2142-2542 Systems Benefits Charge	(101,493.32)
8830-2-0000-20-2142-2543 EAP Marketer Discount	910.11
Total	(100,583.21)

Audit Comment

Audit appreciates the Company response, but reiterates that the accounts identified in the issue were noted on the Filing Schedules and the FERC Form 1 on opposite sides of the balance sheet.

Audit Issue #2
Project Budget vs. Actual

Background

Audit reviewed the 2016-2018 E-22 Budgeted vs. Actual Capital Project Costs.

Audit Issue

Audit performed a review of fourteen of the Company's budgeted vs. actual costs. Six of the projects demonstrate variances between budget and actual. Some of the variances by project are more than double the initial estimates, as seen in the chart below:

2016 Projects	Budgeted	2016 Actual Spent	Difference	Blanket
8830-CNN025	$25,000	$914,660	$889,660	Yes
8830-OTH112	$0	$68,422	$68,422	No
8830-C36425	$100,000	$443,824	$343,824	Yes
Total	$125,000	$1,426,906	$1,301,906	

2017 Projects	Budgeted	2017 Actual Spent	Difference	
8830-C18603	$1,300,000	$1,784,038	$484,038	Yes
8830-C36424	$275,000	$467,937	$192,937	Yes
Total	$1,925,000	$2,619,197	$676,975	

2018 Projects	Budgeted	2018 Actual Spent	Difference	
8830-C36435	$400,000	$125,675	($274,325)	Yes

Audit Recommendation

Audit understands some of the projects are blanket projects and there are unforeseen circumstances that may cause variations of budgeted figures to actual spending. However, the variations in 2016 are significant, and the 2017 and 2018 variances, both over and under, over 30%

While Audit did not note any inconsistencies, it is recommended that the Company continue to implement the budgeting improvements documented in the DE 16-383 audit report: *"Liberty will prepare preliminary business cases in conjunction with the annual budget submission, followed by formal business cases once the budget is finalized.*

- *Liberty will continue to improve monitoring and controlling of actual capital costs as compared to budgeted costs, not only on specific projects but in total. Liberty understands the need to control capital spending, tempered by the realities of the particular situations and changing circumstances as compared to the anticipated circumstances at the time of budget preparation.*
- *Liberty realizes the need for continuous improvement in the capital budgeting process. In an effort to improve its budgeting process, LU has also implemented the following:*
    - *Reinforced monthly budget meetings*
    - *Increased the level of detail that is reviewed*

- *An individual has been designated to manage and review the capital budget and spending [Is this a position that will be filled*
- *Month end accruals are now recorded at a job level rather than in one "Finance Accrual" job to provide better visibility to job spending*"

Company Response

As an initial minor matter, the Company notes that project 8830-C18603 was not a blanket project.

The Company also notes that improvements to its capital budgeting processes were noted in the November 1, 2017, "Recommendations Verifications of Liberty Utilities" report prepared by the Liberty Consulting Group and submitted in Docket No. DG 17-048. That report was prepared subsequent to the audit report in Docket No. DE 16-383 and covered processes that were common to both Granite State Electric and EnergyNorth.

The Company continues to make changes with a goal of consistency and efficiency in the capital planning and reporting process.

In addition to improvements bulleted above (monthly budget meetings, increased level of review, designated resources and improved processes around recording and tracking accruals), the Company has also implemented a dedicated operations finance resource to oversee financial planning and reporting aspects of the Operations and Engineering groups. Additionally, the Company is in the final planning stages for tracking and allocating burdens and overheads in a manner that will allow project managers to better forecast and manage the financial budget of capital projects.

As previously mentioned in this and prior rate cases, the management of capital projects often involves changes in scope and shifts in focus of projects to be completed in order to conduct reliable, safe and efficient operation of the business. With a newly dedicated resource supporting the operations and engineering groups, the company will be more focused on developing and implementing improvements to the process around capital spending.

Audit Comment

Audit based the "blanket" for project 8830-C18603 on the documentation provided. Audit appreciates that the Company continues to focus on developing and implementing improvements to the capital spending process.

Audit Issue #3
Capitalizing Fleet Depreciation

Background

Audit reviewed the 2018 overhead burden calculations. The Capitalized Fleet overhead represents the capitalized monthly fleet, allocated on a pro-rata basis. The capitalization is the monthly depreciation expense of grouped asset 8830-3920, multiplied by the quarterly fleet depreciation rate capitalized by CWIP job through the BRD

Audit Issue

In 2018, the Company began capitalizing a portion of depreciation expense associated with fleet assets through inclusion of the result within the BRD burden applied to capital jobs. Audit understands that the income statement overall is impacted.

However, the capitalized portion of the depreciation expense is credited to account 8830-XXX-xx-XXXX-922X rather than 8830-2-0000-80-8610-4030 Depreciation Expense.

As a result, the depreciation expense is overstated and the Accumulated Depreciation understated.

Audit Recommendation

The Company should not be capitalizing a portion of the depreciation expense, and should quantify the impact and adjust the filing.

Company Response

The transportation (fleet) overhead and the vehicle depreciation capitalization on construction vehicles are two distinct transactions which appear to have been combined in the above write-up of the Audit Issue.

Transportation (fleet) overhead includes costs that are accumulated in the transportation clearing account. Fleet charges such as maintenance and fuel charges are spread from a clearing account proportionately based on labor dollars. The entry for the fleet overhead allocation is credited to capitalized credits, account 922, and cleared to the qualifying jobs.

The capitalization of depreciation on construction vehicles to account 107 balance is appropriate under the guidance set forth by US GAAP standard ASC 360. The entry to capture the capitalization of vehicle depreciation used in construction activities is a debit to CWIP, account 107 and a credit to depreciation expense account 403. Thus, the depreciation expense is not overstated and the Accumulated Depreciation is not understated.

Audit Comment

As acknowledged by Liberty in response to Audit Issue #7, the Company must comply with FERC for regulatory purposes.

Audit Issue #4
Artwork

Background

Audit reviewed the 2017 CPR Additions for account #398 Miscellaneous Equipment that was for artwork. FERC identifies account 398 as:
"*398 Miscellaneous equipment.*
This account shall include the cost of equipment, apparatus, etc., used in the utility operations, which is not includible in any other account of this system of accounts.
Items
1. Hospital and infirmary equipment.
2. Kitchen equipment.
3. Employees' recreation equipment.
4. Radios.
5. Restaurant equipment.
6. Soda fountains.
7. Operators' cottage furnishings.
8. Other miscellaneous equipment.
Note: Miscellaneous equipment of the nature indicated above wherever practicable shall be included in the utility plant accounts on a functional basis."

Audit Issue

On the 2017 CPR addition records the Company included $5,265 that is described as artwork from the renovations the Company performed on the Londonderry headquarters in 2015. The Company capitalized the artwork in May 2017. The artwork is part of project 8830-CNN026. The artwork are pictures that the Company places in the office. The artwork is presently being depreciated at a 3.85%.

Audit Recommendation

The Company should not include $5,265 in artwork in account #398, as it is not a necessary capital expenditure. The charges should be kept to a minimum and expensed below the line going forward.

Company Response

The Company disagrees with this recommendation. The artwork at issue is nothing extravagant nor excessive and consists of a number of framed prints that are on walls throughout the Londonderry facility. Without the artwork the walls would be bare except for paint. The Londonderry headquarters building is by no means opulent, and the low cost artwork provides a small measure of color to marginally enhance the workplace. The Company notes that account #398 is used for items that are not specifically provided for in other accounts, so inexpensive prints should not be considered disallowable. The Audit Staff cites to no rules or rulings in support of the recommendation. Rather, it appears this recommendation is arbitrary and, with no cited basis for the recommendation, appears solely based on the subjective opinion of an auditor. Thus, it is difficult from a Company perspective to agree to recommendations of a subjective nature when no authoritative guidance is cited.

In addition, using the 3.85% depreciation rate results in an annual expense of $202.70. This is quite immaterial and further demonstrates that this recommendation is unwarranted.

Audit Comment

Audit appreciates the Company's response. However, the artwork is not necessary for the safe and reliable provision of electrical service.

Audit Issue #5
Project Documentation

Background

Audit reviewed eleven specific projects for compliance with the Capital Expenditures and Planning Management policy.

Audit Issue

The Company was unable to provide the 2017 Project Closeout Report for Project 8830-1746 The First Responder Mobile Application.

Audit Recommendation

The Company should ensure that all documentation required by policy is available for review.

Company Response

Project 8830-1746: The Company is unable to locate the 2017 Project Close Out form. The Company will continue to work internally to ensure all forms are completed as required in its Liberty Utilities Capital Expenditure Planning and Management Policy.

Audit Comment

Audit appreciates the Company response.

Audit Issue #6
Intangible Asset Software Upgrade

Background

A Cogsdale software upgrade made in accordance with docket DE 18-057, Order #26,132 in that docket, issued on May 4, 2018, authorized the Electric Assistance Program (EAP) discount to be applied to the energy service portion of low-income customers' bills, even if the customer chooses a competitive energy supplier rather than default service. The Order authorizing the implementation also authorized the recovery of the cost through the system benefits charge (SBC).

Issue

Liberty indicated that the upgrade total (as of 1/31/2019) was $195,666.32, booked to FERC 8830-3030 through job #301873-04001.

Expense	Actual	Estimate	Variance
Vendor Costs	$ 133,665	$ 133,898	$ (233)
Labor-Corporate	$ 35,260	$ 26,265	$ 8,995
Labor-NH	$ 6,515	$ 17,000	$ (10,485)
Contingency	$ -	$ 5,140	$ (5,140)
Burdens	$ 18,282	$ -	$ 18,282
AFUDC	$ 1,944	$ -	$ 1,944
	$ 195,666	$ 182,303	$ 13,363

$168,498.10 debited to the Construction Work in Progress account 8830-2-0000-10-1618-1070 from June 2018 through December 2018 was credited to that account on December 31, 2018 and debited to account 8830-2-0000-10-1615-1060, Plant in Service not Classified. The work performed on the IT upgrade, to be reimbursed through the SBC, should have posted to the SBC deferral account 8830-2-0000-20-2142-2542.

Audit understands that additional discovery is being conducted in docket DE 18-057.

Recommendation

Audit recommends that the filing in this rate case be adjusted to remove the $168,498 of plant in service. The overall amount that should be collected through the SBC will be determined in DE 18-057. Appropriateness of the balance is not the subject of this audit.

Company Response

The Company agrees that due to the difference in timing between the incurrence of costs in 2018 and the receipt of reimbursement funding from the SBC (expected during 2020) the costs should be removed from the rate case filing. As the funds received from the SBC will be treated as CIAC and offset the cost of the upgrade, if the reimbursement funding was received in the same year the costs were incurred there would be no impact on plant in service. However, as the rate case has a test year that ended December 31, 2018, the costs should be removed to avoid setting rates that include the system upgrade costs.

Audit Comment

Audit agrees with the Company response.

Audit Issue #7
Cost of Removal Booked Incorrectly

Background

Audit reviewed the account #8830-2-0000-20-2124-2420 Accrued Cost of Removal. As of December 31, 2018, there was $6,879,871 booked to the account.

Audit Issue

Liberty indicated the process for booking the cost of removal was to debit Retirement Work in Process and to credit the payroll clearing account. The actual correct RWIP account 8830-2-0000-10-1655-1081 was not used for a debit and instead debited account 8830-2-0000-20-2124-2420 Miscellaneous Current and Accrued Liabilities.

The Company stated in DE 16-383 Pelham Substation Step Adjustment, "*Each month, we record the COR related to the negative salvage value and set up the liability for COR (2420). In the past, actual COR was charged to 1081 and then cleared to 2420 each month. By charging 2420 directly when actual COR charges are incurred, we are eliminating the entry to transfer from 1081 to 2420*".

Audit Recommendation

The Company should be using FERC account #108 Accumulated Depreciation to book the cost of removal and salvage value rather than account #242 Miscellaneous Current and Accrued Liabilities. The issue was noted in the Audit Report dated 01/10/2019 regarding the Pelham Substation step adjustment in docket DE 16-383. In that report, the Company responded:

> "*The above write-up does not provide a full description of the accounting for the cost of removal, and such an understanding is necessary along with an understanding of the requirements of FERC accounting versus GAAP accounting when reviewing the accounting entries recorded by the Company.*
>
> *There are two pieces to the cost of removal: an estimated cost that is recorded as part of the monthly depreciation expense, and the actual cost of removal incurred when a plant item is removed from service. The estimated piece relates to plant accounts that have a negative net salvage percentage included in the development of the applicable depreciation rate. Assume monthly depreciation expense of $100, with $10 of that amount attributable to negative net salvage. The following entries would be posted:*
>
> *Acct 4030 Depreciation Expense 100*
> *Acct 1080 Accum. Depreciation 100*
> *Acct 1084 Accum Depr. Cost of Removal 10*
> *Acct 2420 Accrued Cost of Removal 10*
>
> *The second entry recognizes, in accordance with GAAP requirements, a future liability that is expected to be incurred for the cost of removal. The Company acknowledges that such an entry is not described in the FERC Chart of Accounts. Assume $8 of actual cost of removal is incurred. The entry that would be recorded is:*
>
> *Acct 2420 Accrued Cost of Removal 8*
> *Acct 1310 Cash (or Accts. Payable) 8*

By charging the $8 against Account 242, the future liability is reduced by the amount of actual cost of removal incurred. This is in accordance with GAAP accounting. As stated in the Audit Issue section above, prior Company practice involved the following two entries:

Acct 1081 Retirement Work in Process 8
Acct 1310 Cash (or Accts. Payable) 8
Acct 2420 Accrued. Cost of Removal 8
Acct 1081 Retirement Work in Process 8

The net effect of both the prior practice and the current practice results in the same account balances. Again, Account 2420 is used for GAAP financial statement reporting purposes. For regulatory purposes, when a rate case is prepared, the balances in Accounts 1080, 1081, 1084 and 2420 are combined to capture the entire activity associated with accumulated depreciation and accurately reflect net plant in service."

Audit responded to the Company's comment:

"*Audit appreciates the response by the Company in regards to a clearer explanation as to how the Cost of Removal is booked with regard to GAAP vs. FERC. The Company is reminded they must follow FERC. Granite State Electric should be using FERC account # 108 Accumulated Depreciation to book the cost of removal and salvage value rather than account # 242 Miscellaneous Current and Accrued Liabilities.*

FERC account # 108 states "at the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. When retirement, cost of removal and salvage are entered originally in retirement work orders, the net total of such work orders may be included in a separate subaccount hereunder…"

FERC account # 242 states "This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability. Items (nonmajor only) 1. Dividends declared but not paid 2. Matured long-term debt 3. Matured interest 4. Taxes collected through payroll deductions or otherwise pending transmittal to the proper taxing authority."

Recommendation

As in the step adjustment report, the Company is reminded that it is required to follow the FERC Uniform System of Accounts.

Company Response

While the Company will follow the FERC Uniform System of Accounts by recording its cost of removal in Account 108 Accumulated Depreciation for regulatory purposes, the Company will continue to utilize Account 242 Miscellaneous Current and Accrued Liabilities for GAAP financial statement reporting purposes. Account 108 will be utilized for day to day entries. A journal entry for the cost of removal (reclassify Account 108 to Account 242) will be made on the consolidating company level to conform to GAAP reporting requirements.

Audit Comment

The Company acknowledges that compliance with FERC is required for regulatory purposes.

Audit Issue #8

AFUDC

Background

Audit asked the Company for an AFUDC analysis of an instance of using the incorrect AFUDC Equity rate.

Audit Issue

The Company indicated within Staff Data Response 13-10 dated 4/3/2019 DE 16-383, on the Pelham Substation, that the AFUDC equity rate was incorrectly applied. Based on a Company review starting May 1, 2017 the Company used a weighted AFUDC equity rate of 4.75% when it should have been 4.70%.

It is understood that, calculating the AFUDC on the average CWIP balances, the incorrect rate results in immaterial variances. It is unclear when the rate was corrected.

Audit Recommendation

The Company should ensure that rates used within the AFUDC calculations are correct.

Company Response

The Company agrees with the recommendation.

Audit Comment

Audit concurs.

Audit Issue #9
Account Numbers do not Comply with the FERC Uniform System of Accounts

Background

Audit verified the reported FERC Form 1 and filing schedules to the general ledger.

Issue

The following is a sample identification of general ledger accounts identified as not coinciding with the account numbers on the FERC Form 1 and/or the Filing schedule RR-4, having account number strings that demonstrate asset and liability at the same time, or accounts that do not exist in the FERC Uniform System of Accounts:

8830-2-0000-10-1121-1460	AR Associated Company	$ 5,942.05
8830-2-0000-20-2810-2635	Due to COGSDALE	$ 24,499,394.88
8830-2-0000-20-2810-2639	Due from Liberty Utilities (Central) Services Corp	$ 238,886.44
8830-2-0000-20-2810-2079	Due to Liberty Liberty Utilities Canada	$ 249,582.35
8830-2-0000-10-1936-1000	Deferred Financing - Intercompany	$ 16,026.92
		$ 25,009,832.64

The entire $25,009,832.64 is included as Due from affiliates on the filing schedule RR-4, implying account 146.

The filing schedule RR-4 reflects ADIT-Debits $328,131, which was verified to the general ledger account 8830-2-0000-10-1930-2830. The 10-1930 indicate an asset account, the 2830 indicates a liability account.

The capitalization on the filing Schedule RR-4 was verified to the following general ledger accounts. The 30-3XXX identifies each as relating to the capitalization of the company. However, the final four digits of the account agree with FERC only for 201x and 219x.

8830-2-0000-30-3010-2010 Common Stock	$ -0-	
8830-2-0000-30-3050-4550 Interco CS-GSE	$(82,024,903)	Common Stock
8830-2-0000-30-3045-4550 Interco APIC-GSE	$(17,000,000)	Other Pd in Cap
8830-2-0000-30-3310-2160 Retained Earnings	$ 119,942	Retained Earnings
Net activity all revenue and expense accounts 2018	$(4,655,041)	Current Ret. Earnings
8830-2-0000-30-3800-0002 AOCI-Pension	$ 4,366,844	
8830-2-0000-30-3800-0003 AOCI-OPEB	$(4,694,207)	
8830-2-0000-30-3800-0052 OCI-Pension-Taxes	$ (231,310)	
8830-2-0000-30-3800-0153 AOCI-Pension-Taxes	$ (652,882)	
8830-2-0000-30-3800-0154 AOCI-OPEB-Taxes	$ 906,817	
8830-2-0000-30-3800-2192 OCI FAS 158-Pension	$ 74,918	
8830-2-0000-30-3800-2193 OCI FAS 158-OPEB	$ 69,779	
	$ (160,041)	Retained Earnings Adj.
General Ledger Total Capitalization	$(103,720,043)	

The FERC Form 1 page 112 line 2 reflects Common Stock $(6,040,000) and Other Paid- in Capital on line 7, $(92,984,903). Audit verified that the $(92,984,903) represents the *acquisition* *of Granite State Electric Company* by Liberty Utilities Energy (New Hampshire) Corp., per the FERC page 253, and should be booked to account **211**, Miscellaneous Paid in Capital. As of the prior test year, the figure was $(75,984,903). The 2018 figure is higher by the Other-Paid in Capital of $(17,000,000) discussed below. The Company should explain why the $(75,984,903) acquisition figure should be part of the rate case.

The referenced Other Paid-in Capital figure on the schedule RR-4 line 30, $(17,000,000) is rolled into Other Paid-in-Capital on the FERC Form 1. Audit verified the figure to the general ledger account 8830-2-0000-30-3800-**4550**, Interco APIC-GSE. Audit understands the use of the 30-3800 identifies the account as an equity account. Audit reminds the Company that compliance with the FERC is required.

The filing schedule RR-4 reflects long term debt of $(15,000,000) within the general ledger account 8830-2-0000-20-2910-**224**0. The figure was noted on the FERC Form 1 page 112 line 18, Bonds account 221.

Generally, if an asset account reflects a credit balance at quarter or year-end, or a liability account reflects a debit balance, the balance is moved to the opposite side of the balance sheet, to reflect the balance position of the account rather than the balance sheet location of the account. This treatment is understood to comply with GAAP. The Company is again reminded that the financial statements of GSE must comply with the FERC Uniform System of Accounts.

Account, 8830-2-9853-51-5444-**735**0 Misc. Production Expense that sums to $69,113, has been included in the total for account **598** within the filing. The FERC Uniform System of Accounts does not include #735.

The filing schedule RR-2-1 reflects a total of $32,314 for account **908** rather than **909**, a variance of $1,085 higher than the FERC Form 1 and the general ledger. Audit noted that the FERC Form 1 reflects $1,085 for account **910**, Miscellaneous Customer Service and Informational Expenses. that was tied to:

8830-2-0000-69-5010-9100 Misc customer service and info exp-labor	$ -0-
8830-2-0000-69-5390-9100 Misc customer service and informational expenses	$(12,000)
8830-2-9865-69-5010-9100 Misc customer service and info exp-labor	$ 1
8830-2-9865-69-5390-9100 Misc customer service and informational expenses	$ 13,084
	$ 1,085

The filing schedule RR-2-1 reflects a total for Customer Service, Miscellaneous Expenses on line 80 page 3 of 5, for account **910** in the amount of $136,663. This total is actually the sum of the **912** and **916** Sales expenses, plus 8830-2-9867-69-5010-**9207**, Demonstrating & Selling Labor.

Accumulated Depreciation on the FERC Form 1 and the Filing properly include accounts 108X, 1100, 1110, but should not include 1220 -2910-1823 which appears to be both an asset and liability, or 2420, a liability. Account 1220 relates to Other Property and Investments.

8830-2-0000-10-1655-1080	Accum Prov for Depn of Elect Utility Plant	(96,399,847.15)		
8830-2-0000-10-1655-1081	RWIP Reclass	-		
8830-2-0000-10-1655-1082	RWIP Salvage	(66,137.03)		
8830-2-0000-10-1655-1084	Accum dep cost of removal	10,144,432.36		
8830-2-0000-10-1655-1087	Excess Accum Depreciation	-		
8830-2-0000-20-2910-1823	Excess Depreciation- Greater than 1 year	-		
8830-2-0000-10-1655-1100	Accum Prov for Amort of Elect Utility Plant (r	-		
8830-2-0000-10-1655-1110	Accum Prov for Depn of Elect Utility Plant	(422,531.10)		
8830-2-0000-10-1655-1220	Accum Depr Non Utility Property	-	(86,744,082.92)	
8830-2-0000-20-2124-2420	Accrued cost of removal	(6,879,870.89)	(6,879,870.89)	
			(93,623,953.81)	RR-4, line 3

The Unapplied Payments **2420** account is included in the FERC **142** Accounts Receivable balance.

8830-2-0000-10-1101-1420	Customer Accounts Receivable	$12,634,538	
8830-2-0000-10-1101-1421	Customer AR-Misc. Billing	$ 714,250	
8830-2-0000-20-2111-**2420**	Unapplied Payments	$ (296,994)	
	Total FERC Form 1 Accounts Receivable	$13,051,794	See

Recommendation

The Company should review its account numbers to ensure they are reflective of the correct FERC uniform system of accounts. The account numbers used in the general ledger should be accurately reflected within the coinciding FERC number on the form 1. In response to a similar issue in DE 16-383, the Company responded: "*The Company notes that the Audit Staff has not concluded that any of the above items are being treated improperly in terms of their inclusion on either the balance sheet or income statement. Regarding account numbers that may differ from the FERC chart of accounts, the Company points out that the Commission rules appear to conflict with respect to whether the FERC chart of accounts must be used in all instances or if a utility is allowed to have some variation in its chart of accounts. Specifically, while Puc 307.04 prescribes use of the FERC uniform system of accounts, Puc 1604.01(a)(9) provides that a utility filing a full rate case must provide "the utility's chart of accounts, if different from the uniform system of accounts established by the commission as part of Puc 300…" In its rate case filing, the Company provided a copy of its chart of accounts that includes a multi-level account structure that includes further delineation as to the proper classification (asset, liability, etc.) of each account for reporting purposes. While some of the account numbers used by the Company may vary from the FERC chart of accounts, it seems that variation is permissible pursuant to Puc 1604.01(a)(9). Otherwise, that particular rule which anticipates a utility's chart of accounts being different from the uniform system of accounts, would be unnecessary. Regardless, the Company understands the reason for the recommendation. Certain account numbers, such as the 260-263 accounts for intercompany transactions, are used throughout the organization, so any change to those accounts would require a larger scale effort as it would involve recoding and remapping at other entities throughout the organization. The Company will have internal discussions regarding changes to the account numbers to determine the feasibility of making the recommended changes*."

Audit encourages the Company to act on any internal discussions regarding changes to the account numbers, as indicated in the DE 16-383 audit report.

Company Response

In addition to our prior responses referenced in the Recommendations above, please refer to The Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions the Federal Power Act Definitions Section 3. Number Systems, Part C states that "…however, if a utility uses a different group of account numbers and it is not practicable to show the prescribed account numbers in the various sources of original entry, such reference to the prescribed account numbers may be omitted from the various sources of original entry. Moreover, each utility using different account numbers for its own purposes shall keep readily available a list of such account numbers which it uses and a reconciliation of such account numbers with the account numbers provided herein. It is intended that the utility's records shall be so kept as to permit ready analysis by prescribed accounts (by direct reference to sources of original entry to the extent practicable) and to permit preparation of financial and operating statements directly from such records at the end of each accounting period according to the prescribed accounts."

We have had multiple conversations with APUC regarding several of the account numbers discussed in this Audit Issue. APUC has multiple companies whose financial transactions must be consolidated at the corporate level. Account numbers are generated at the corporate level and are used to denote specific intercompany relationships, etc. The vast nature of the companies using the same account segments for different purposes makes it extremely difficult to match FERC accounting in all instances on the local books. We are not able to change many of the accounts referenced in this Audit Issue.

Filing schedule RR-4 included accounts on line 13 that should have been included on line 42. Only AR Associated Company $5,942.05 should have been included.

The filing schedule RR-4 reflects ADIT-Debits $328,131, which was verified to the general ledger account 8830-2-0000-10-1930-2830. The 10-1930 indicate an asset account, the 2830 indicates a liability account. This is an example of the account number resulting from multiple companies using similar account numbers.

Common Stock $82,024,903 less the par value of $6,040,000 is equal to $75,984,903. The par value is separated for representation purposes on the FERC Form 1 only. The Common Stock total value was previously recorded in FERC account 201, however the balance was reclassified by APUC to account 8830-2-0000-30-3050-4550 effective December 2018 across all companies for consolidation purposes. An additional $17,000,000 was later invested and was previously recorded in FERC account 211, however the balance was reclassified by APUC to account 8830-2-0000-30-3045-4550 effective December 2018 across all companies for consolidation purposes. $99,024,903, the total value of the Granite State Electric stock equity is appropriate for inclusion as amounts reported in the rate case.

$82,024,903 Common Stock (201)
$17,000,000 Misc Paid In Capital (211)
$99,024,903

The Company further notes that for purposes of capital structure in the rate case, a hypothetical capital structure was used in DE 16-383 and has been proposed in DE 19-064.

The filing schedule RR-4 reflects long term debt of $(15,000,000) within the general ledger account 8830-2-0000-20-2910-2240 which is correct. The figure was noted on the FERC Form 1 page 112 line 18, Bonds account 221. This should have been reflected on line 21, Other Long Term Debt (224).

Generally, if an asset account reflects a credit balance at quarter or year-end, or a liability account reflects a debit balance, the balance is moved to the opposite side of the balance sheet, to reflect the balance position of the account rather than the balance sheet location of the account. Beginning in Q419 we are no longer moving unnatural balances on the local set of books.

Account, 8830-2-9853-51-5444-7350 Misc. Production Expense that sums to $69,113, was included in the total for account 598 in the filing and are valid expenses for the electric utility. We agree that the Electric FERC Uniform System of Accounts does not include #735. The account will be disabled and will be no longer used in 2020. The 2019 charges have been reclassified to account 8830-2-9851-51-5435-5880.

The filing schedule RR-2-1 inaccurately summarized accounts 909 and 910 and lists these account balances in 908 due to mapping issues within the model. Additionally accounts 907 and 916 were inaccurately summarized on the schedule and listed in 912. There is no financial impact.

The FERC Form 1 has several Footnotes that reference reclassification entries related to Plant, including the correct presentation of account 242 Accrued Cost of Removal as part of accumulated depreciation. Please refer to Page 450.1 for Page 110 and Page 219. After reviewing those footnotes in the FERC Form 1, it was confirmed that all of the correct FERC accounts were reported correctly in both the FERC Form 1 and Schedule RR-4, line 3. For further information regarding the use of account 242, see the Company's Response to Audit Issue #7.

Audit Comment

Audit appreciates the Company's response and encourages the continued mapping research and efforts to align the complex accounts of a multi-jurisdictional multi-national company.

Audit Issue # 10
FERC Form 1 Revenue Presentation Does not Agree with the General Ledger

Background

The FERC Form 1 page 300 reflects total Miscellaneous Revenues account 451 on line 17 of $(587,241) and total Forfeited Discounts account 450 on line 16 of $(45,975), for a total of $(633,217).

Issue

The filing schedule PUC 1604.01(a)(1)b PL reflects account 451 Miscellaneous Revenues:

8830-2-0000-40-4210-4510	Miscellaneous Service Revenue	$ (206,060)
8830-2-0000-40-4210-4511	Miscellaneous Service Revenue Open Access	$ (427,157)
	Total	$ (633,217)

Audit requested clarification from the Company regarding the FERC Form 1, as there is no Forfeited Discount account 450 on Liberty's general ledger. The Company provided a detailed calculation and pivot table of a wide variety of revenue types included within accounts 451, but did not provide the explanation for the use of account 450 on the FERC Form 1 only.

Recommendation

The Company should explain why the split is recorded on the FERC Form 1 in the manner presented, as well as why the actual general ledger account 450 is not used. Audit understands that there is no impact to the total revenue.

Company Response

All miscellaneous service charges, including late payment charges, service connection charges, and bank charges, are recorded to 8830-2-0000-40-4210-4510 Miscellaneous Service Revenue due to account mapping within the billing system. For the preparation of the FERC Form 1 only, the revenue data is analyzed at year end and the amount of Forfeited Discounts (Late Payment Charges) is determined and reported separately from other miscellaneous revenue to account FERC account 450.

The Company appreciates Audit Staff's acknowledgement that there is no impact to the total revenue.

Audit Comment

Audit appreciates the explanation, but the reason for not using account 450 was not provided.

Audit Issue #11
Expenses Outside of the Test Year

Background

Audit reviewed the account activity in several expense accounts, and sample tested certain expense entries.

Issue

Based on the documentation provided and the activity in the account, the following appear to be entries that relate to expense activity outside of the test year:

8830-2-0000-51-5435-5800 Operation-Engrng $10,812.48 ControlPoint Tech 12/2017
8830-2-0000-51-5435-5800 Operation-Engrng $ 5,807.50 ControlPoint Tech 12/2017

8830-2-9865-69-5250-9030 Customer Records & Cllctns $1,727 includes overstatement of $1,251

8830-2-9820-69-5130-9210 Office Supplies-Finance and Admin $1,641 bank fees 2017

8830-2-9815-69-5131-9212, Utilities-EHSS, includes an invoice from Ready Refresh in the amount of $1,059.15. The invoice is for bottled water and past due charges, all of which were incurred from November 29, 2017 through December 24, 2017.

8830-2-9851-69-5131-9216, Postage $847 is overstated by $766.67 due to charges posted in March for p-card purchases in July and August 2017.

8830-2-9823-69-5200-9230 Outside services-Legal $1,701.66 transcription service of Robidas for hearing in March 2017.

Recommendation

Audit recommends that a total of $23,515.46 of expenses relating to expenses incurred in 2017 be removed from the rate case.

Company Response

The selected expenses identified by Audit Staff as having been incurred in 2017 and thus necessitating their removal from the 2018 test year is not necessary as there were comparable costs incurred in 2018 that were not included in expense until 2019.

The two ControlPoint Technology invoices totaling $16,619.98 were for services for the month ending 12/23/2017 and were invoiced on 12/31/2017. The same situation occurred in 2018 when services for December were not included in expense until 2019.

Bank fees will be incurred every calendar month and will always be assessed in the month following the month for which the fee applies. As such, similar charges were assessed in January 2019 for December 2018.

The invoices for Ready Refresh were for two deliveries, one in late November 2017 and one two weeks later in December 2017. The same occurred in late 2018 with the invoice being charged to expense in early 2019.

The $1,701.66 charge for transcription services for hearings in March 2017 was not invoiced to the Company until December 28, 2017. A review of invoices received from Robidas in 2019 shows that invoices totaling $1,000 were received for services provided in 2018, confirming that costs are comparable from year to year.

Audit Comment

Audit appreciates the response. If routine charges are known, accruals should be booked in the year the expense is incurred.

Regarding the $1,701.66, Audit reviewed one invoice for the total amount.

Audit Issue #12
Expenses that Should Have Been Capitalized

Background

Audit reviewed the account activity in several expense accounts, and sample tested certain expense entries.

Issue

Based on the documentation provided and the activity in the account, the following appear to be entries should have been capitalized rather than expensed:

8830-2-9851-51-5045-5820 Station Expense	$ 3,500.00	Electrified fencing and electrical connections
8830-2-9825-51-5435-5880 Misc. Dist. Expense	$ 4,652.15	LED fixtures
8830-2-9825-51-5435-5880 Misc. Dist. Expense	$ 5,275.29	LED fixtures
	$13,427.44	

Audit reviewed the supporting documentation relating to the electrical fence and related electrical connections and control panel at the Lebanon facility. Transgard Systems, Inc. billed Liberty $3,500 in May 2018 for the installation of fence panels, stands and electrical connections between the panels, and the installation of a new control center to the existing entryway.

Audit understands that individual components of the LED fixtures fall below the $1,000 capitalization threshold. However, the garage and hallway lighting replacement projects overall do meet the threshold.

Recommendation

It is recommended that the Miscellaneous Distribution Expense account 8830-2-9825-51-5435-5880 be reduced by $13,427.44 and the appropriate plant in service account be increased.

Company Response

The Company agrees that the amount charged to 8830-2-9851-51-5045-5820 Station Expense will be capitalized as a minor item of property to the original retirement unit, namely, the fence. The appropriate plant in service account will be increased, and the 8830-2-9851-51-5045-5820 Station Expense will be decreased for $3,500.

The two invoices for LED fixtures were expensed because the dollar threshold was not met and no retirement unit can be identified. The scope of this work did not involve removing an entire fixture but rather adding a small component which now allowed it to be an LED light instead of a fluorescent light. The total amount for $9,927.44 will remain in 8830-2-9825-51-5435-5880 Misc. Dist. Expense

Audit Comment

Audit appreciates the Company response. If the exchange of lighting fixtures is anticipated to occur on a regular basis, expensing the LED may be reasonable. Otherwise, the Issue and recommendation remain.

Audit Issue #13
Expenses to Be Considered Non-recurring

Background

Audit reviewed the account activity in several expense accounts, and sample tested certain expense entries.

Issue

Based on the documentation provided and the activity in the account, the following entries should be considered non-recurring:

8830-2-0000-80-8640-4073 Amortization of Regulatory Debits $359,904 relates to the 2016 rate case expenses .

8830-2-9851-51-5410-5830 Overhead Lines Expenses $2,500 paid to Kearsarge Telephone.

8830-2-9825-51-5435-5880 Misc. Dist. Expense $11,588.00 An office space consultant was paid for design, programming, development and test fitting of office space re-design, but the Company chose not to proceed with the changes.

The Energy Council of the Northeast ceased operations in 2019. As a result, the dues paid, and spread among the following accounts, will be non-recurring.

8830-2-9800-69-5130-9210	Office Supplies-IT	510.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	853.75	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	1,260.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	1,775.80	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	1,050.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-51-5435-5880	Misc Distribution expenses	6,800.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9851-69-5131-9214	Dues & Membership Fees	1,775.80	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-51-5435-5800	Operation - Engineering	853.75	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-69-5131-9215	Training	675.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-69-5131-9215	Training	6,800.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9854-69-5131-9215	Training	695.00	ENERGY COUNCIL OF THE NORTHEAST
8830-2-9865-69-5250-9030	Customer Records & Collections Expenses	151.56	ENERGY COUNCIL OF THE NORTHEAST
		23,200.66	

8830-2-9823-69-5200-9230 Outside services-Legal $13,154 Wilson, Dawson, Brett investigation into possible litigation.
8830-2-9823-69-5200-9230 Outside services-Legal $13,872 paid to Pastori Krans relating to lawsuit in federal court stemming from an encounter between a customer and a collector.
8830-2-9823-69-5200-9230 Outside services-Legal $1,499 Concentric regarding the possible purchase of a third party's assets
8830-2-9823-69-5130-9210 Office Supplies-Legal includes an entry in the amount of $9,700 paid to Pastori Krans, PLLC, for expenses stemming from an encounter between a customer and a collector.

8830-2-9820-69-5680-4080 Property Tax Expense $130 paid to Franconia for a transmitter receiver antenna that was retired in 2018

Recommendation

Audit recommends that for the rate case consideration, the expenses above should be considered as non-recurring.

Company Response

8830-2-0000-80-8640-4073 – The total of $359,904 includes amortization of 2016 rate case expenses in the amount of $314,859 and amortization of a Liberty Consulting Group audit in the amount of $45,045. Rate case expenses are recovered through an increase to distribution rates, and the associated revenue was included in the rate case filing. As the revenue and the expenses were both included, no adjustment is necessary.

The Company disagrees that the other expenses cited above should be considered as non-recurring because similar costs are normally expected to be incurred during any year, and most can be considered a normal cost of operation. For example:

- Although the Energy Council of the Northeast ceased operations in 2019, the cost and value of the training and resources received through the organization will be replaced with training and resources from other organizations going forward.

- Various costs for Outside Services – Legal should not be considered non-recurring as similar costs have been incurred in 2019. A review of charges to various outside law firms shows that nearly $37,000 has been recorded through November 30, 2019. In addition, $13,807 has been paid to Concentric Energy Advisors in 2019 and charged to Outside Services – Legal.

Audit Comment

Audit concurs with the amortization reference. Known expenses that will no longer be incurred could not be projected by Audit for what may be similar expenses to occur after the test-year. Legal costs of the type reviewed were not outlined due to privacy concerns of the customer and the Company. While some legal expenses are certainly regular and recurring, some of the expenses reviewed cannot be anticipated every year.

Audit Issue #14
Expenses Should Have Been Booked below the Line

Background

Audit reviewed the account activity in several expense accounts, and sample tested certain expense entries.

Issue

Based on the documentation provided and the activity in the account, the following entries should have been posted to an expense account below the line:

8830-2-9865-69-5390-9120 Demonstrating & Selling	$1,000 Hanover Chamber
8830-2-9810-69-5130-9210 Office Supplies-HR	$ 75 St. Jude's
8830-2-9820-69-5130-9210 Office Supplies-Finance and Admin	$139.31 Edible Arrngmt

8830-2-9860-69-5130-9210 Office Supplies – Executive $7,735.37 invoice from Benchmark Graphics for 200 insulated hot/cold Yeti lowball rambler cups, with 2-sided engraving.

8830-2-9860-69-5131-9214 Dues & Membership Fees $515.84 Relating EEI to donations- Refer to Staff Data Requests 3-26 and 5-8.

8830-2-9860-69-5131-9214 Dues & Membership Fees $262.28 New England-Canada Council

8830-2-9811-69-5130-9215 Office Supplies & exp - Payroll&HRIS LU HO included seven entries from April through October, identified as "Empire Labs Allocations". Audit requested clarification of what supplies were purchased from Empire, and was told they represent charges for service award gift cards and occasionally spirit awards. The expenses sum to $4,440.

Recommendation

Audit recommends that costs for any lobbying efforts, considerations for employee morale, or swag, be borne by the shareholders rather than ratepayers.

Company Response

The Company believes that the $1,000 payment to Hanover Chamber of Commerce is a justifiable expense as it provides a valuable connection to the community in which we provide service and should not be considered a lobbying expense as it was not an expense related to attempting to influence a position on any matter.

In response to Staff 5-8.b, the Company agreed that $515.84 of the EEI invoice was attributable to a contribution to the Edison Foundation and should be charged to donations and excluded from Dues and Memberships.

The Company agrees that the $75 donation to St. Jude's should be removed from expense and charged below the line to donations.

The miscellaneous charges for Edible Arrangements, Benchmark Graphics, and the various charges billed through Empire Labs Allocations were for employee service recognition awards and employee spirit awards. These items are certainly not excessive in nature and should be considered valid expenditures. These are all low cost ways of maintaining employee morale and improving employee engagement. Having engaged employees is vital to the success of the Company and helps provide better service to customers. The Audit Staff cites to no rules or rulings in support of the recommendation and it appears to be arbitrary and of a subjective nature. Thus, it is difficult from a Company perspective to agree to recommendations of a subjective nature when no authoritative guidance is cited.

The $262.28 charge for New England-Canada Council is GSE's allocated portion of the annual Corporate Membership. The Council provides a valuable resource for understanding the business, cultural, and political issues between Canada and the United States and the cost should remain in expense. The Council also holds an annual Energy Conference at which senior management personnel speak and participate.

Audit Comment

Audit appreciates the perspective of the Company, but reiterates the issue.

Audit Issue #15
Expenses Should Have Been Booked to a Pre-paid Account

Background

Audit reviewed the account activity in several expense accounts, and sample tested certain expense entries. Invoices that are below the $10,000 expense threshold for Liberty are booked in full, rather than booked as prepayments if the timing crosses financial years.

Issue

Based on the documentation provided and the activity in the account, the following entries should have had the portion below booked to a pre-paid account rather than fully expensing the item:

8830-2-9835-69-5130-9210 Office Supplies-Energy Procurement $11,850 represents 30% of the total invoice from InstaNext, Inc. for software service from 6/30/2018 through 6/30/2019. $5,925 of the invoice should have been booked as a prepaid.

8830-2-9853-69-5131-9213 Communication $3,062.50 of the 3/30/2018 through 3/30/2019 ARCOS invoice should have been booked to a prepaid account. The total invoice was $12,250.

8830-2-9815-69-5131-9215, Training $5,229 is overstated by $1,800. Audit was provided with an invoice from Chad Hymas Communications dated 9/17/2018 in the amount of $12,000. $6,000 of the invoice was allocated to "East". 30% of that was allocated to GSE, but the invoice is for a March 26-29, 2019 Safety Symposium. The invoice should have been booked to a prepayment account.

Recommendation

Audit recommends that the outside of the test year portion of the expenses be removed from the rate case expense figures and reflected in a prepaid account.

Company Response

The Company's internal policy is to fully expense any charges less than $10,000 for services covering more than one month, and to charge to the Prepaid account any charges greater than $10,000 for services covering more than one month and amortize to expense the pro-rata share of the charge over the respective number of months covered by the invoice.

<u>8830-2-9835-69-5130-9210 $11,850 InstaNext, Inc. Software service</u> – The invoice meets the criteria for recording the total cost to Prepaids and expensing the cost over the period July 2018 – June 2019. As a result, $5,925 of the invoice would have been expensed in 2018, with the remaining $5,925 reported as a Prepaid at 12/31/2018.

<u>8830-2-9853-69-5131-9213 $3,062.50 ARCOS</u> -- The Company agrees with the observation that since the ARCOs invoice was greater than $10,000, the charge should have been applied to the Prepaid account and amortized over the period 4/1/2018 – 3/30/2019, resulting in a balance in the Prepaid account of $3,062.50 at December 31, 2018 and only $9,187.50 being charged to

expense, rather than the entire $12,250.00. However, this is an ongoing annual cost that began in 2018, so the amount recorded in the test year does not overstate the annual expense. Thus, no adjustment is necessary.

8830-2-9815-69-5131-9215 $1,800 Chad Hymas Communications -- The invoice was for a speaker for the EHSS symposium which was held in 2019 however, the payment was due upon receipt and was an immediate expense. The amount of the invoice was also less than the $10,000 threshold and was therefore fully expensed.

Audit Comment

Audit concurs with the response for InstaNext. Regarding the ARCOS, a new annual ongoing cost should have been reflected in the filing with the actual expense, and a proforma for the additional three months. Regarding the Hymas, the total invoice was $12,000 which was then allocated to East and then to GSE.

Audit Issue #16
Lack of Sufficient Documentation

Background

Audit reviewed the account activity in several accounts, and sample tested certain entries.

Issue

Work Order 8830-9800-WEBDEV, $132,158 Web Redevelopment. Audit was provided with a breakout of the $132,158 Oakville IT charges that were allocated from an overall Website Redevelopment cost summary of $1,566,935 (Canadian) or $1,205,963 (USD), per a LABSCWIP Allocation Sep 2016. Additional information provided after the issuance of the DRAFT audit report indicated:

Labor	$ 254,490	
Materials	$ 367,144	
Contractors	$ 912,390	
Travel	$ 7,483	
Other	$ 23,370	
Total Canadian $	$1,564,877	per an historical window printout.

On 1/9/2020, the Company provided a further spreadsheet with what the specific charges of the cost elements, such as vendors, materials, travel, and labor, represent.

Manual Labor Adj.	$ 2,058
Labor	$ 253,489
Materials	$ 367,144
Contractors	$ 912,390
Travel	$ 7,483
Other	$ 23,370
Total Canadian $	$1,565,734

As a result the $132,158 that was allocated to Work Order 8830-9800-WEBDEV for Granite State Electric will need to be reduced. Due to time constraints, a further review of payroll and invoices was not conducted.

Recommendation

Audit recommends that the Company adjust the general ledger and filing as appropriate.

Company Response

For this website redevelopment project, the Company was charged $171,715.77 (CAD) based on GSE's portion (10.96%) of the total LU allocation of $1,566,934.70 (CAD). When you convert to USD the actual amount charged to GSE's books was $132,157.91 ($171,715.77 / 1.2993227).

The GL detail provided to Audit Staff totaled $1,565,733.99 (CAD) which is $1,200.71 (CAD) below the LU allocation amount of $1,566,934.70 (CAD). GSE's portion of the $1,200.71 (CAD) difference is only $131.58 (CAD) ($1,200.71 * 10.96%) or $101.27 (USD) ($131.58 / 1.2993227).

Audit Comment

Audit concurs with the calculated USD reduction of $101.27, which is considered immaterial.

Audit Issue #17
Expenses Booked to Incorrect Utility, or Recovered through the SBC

Background

Audit reviewed the account activity in several expense accounts, and sample tested certain expense entries.

Issue

Based on a review of the account activity and certain invoices reviewed, the following should have been posted to EnergyNorth

8830-2-9823-69-5200-9230 Outside Services Legal $300.92 GSE relating to CORE, representing half of Patnaude invoice for transcription services

8830-2-9823-69-5200-9230 Outside Services Legal $300.92 representing half of Patnaude invoice for transcription services should have been booked to EnergyNorth.

8830-2-9860-69-5130-9216, Meals & Entertain. - Executive LU HO $608.57 of an overall expense reimbursement request of $651.83, was identified as an EnergyNorth expense relating to a farewell dinner for D. McCormick.

Recommendation

It is recommended that the filing be adjusted to reflect the reduction of postings that should have been on the financial records of EnergyNorth, and by the CORE expense that should have been recovered through the System Benefits Charge.

Company Response

An invoice for Steven Patnaude for $601.84 was originally booked to account 8830-2-9823-69-5130-9210 Adm-Office Supp&Exp-Vou in January 2018 and then transferred via a journal entry to 8830-2-9823-69-5200-9230. The invoice covered transcription services for DE17-136 2018-2020 CORE New Hampshire Statewide Energy Efficiency Plan program so it would seem reasonable that the invoice should have been allocated at least 50% ($300.92) to EN. Court reporter fees have not previously been included as costs under the EE (SBC) program.

The charge for $608.57 to 8830-2-9860-69-5130-9216 was associated with a farewell dinner for a respected now-former employee who provided service to various GSE projects so the cost is properly chargeable to GSE.

Audit Comment

Audit appreciates the information regarding Mr. Patnaude's transcription invoice, and agrees with the Company that those costs are typically not expensed as part of the Energy Efficiency program expenses. The Company and Staff should determine if those types of expenses should be in distribution rates or paid through the SBC.

Regarding the farewell, Audit appreciates the perspective, but this is not something the ratepayers should pay. Shareholders or other employees who appreciate the work of the former employee should have paid for the farewell dinner.

Audit Issue #18
Transmission Related Accounts

Background

Audit reviewed the accounts included in the filing and compared the reported totals to the general ledger and to the FERC Form 1.

Audit Issue

The FERC #563 $822 and #570 $4,103 are combined on the filing. Refer to RR-2-1 page 2 of 5 line 47, reflected as account #570 in the amount of $4,926. Audit did verify the totals to accounts:

8830-2-0000-51-5010-5630	Overhead Lines-Labor	$ -0-
8830-2-0000-51-5410-5630	Overhead Lines	$ -0-
8830-2-9851-51-5010-5630	Overhead Lines	$ 822
8830-2-0000-56-5010-5701	Trans Maint-Substation-Trouble-Labor	$ -0-
8830-2-9851-56-5010-5701	Trans Maint Substation Trouble	$4,104
		$4,926

Audit Recommendation

These expense accounts should also be part of the flow-through, as they are part of the Transmission portion of the FERC Form 1.

Company Response

Amounts referenced by Staff Audit in the above audit issue represent overhead lines expenses that were incorrectly charged to transmission maintenance expense accounts in error. There is an error in the job mapping related to the charges totaling $822. The job is mapped to FERC account 563 but should be mapped to FERC account 588.

Account Number	Description
8830-2-9851-51-5010-5630	8830-9851-58803|00011589
8830-2-9851-51-5010-5630	8830-9851-58803|00004012
8830-2-9851-51-5010-5630	8830-9851-58803|00004012
8830-2-9851-51-5010-5630	8830-9851-58803|00004008
8830-2-9851-51-5010-5630	

Charges in the amount of $4,104 reported in FERC account 570 Trans Maint Substation Trouble were reported as transmission costs in error. These costs should have been reported in the Distribution Maintenance Expense FERC account 598.

Audit Comment

Audit appreciates the Company researching the mapping issue and understands that the IT correction will be made.

Audit Issue #19
Filing pages

Background

Audit reviewed the accounts included in the filing and compared the reported totals to the general ledger and to the FERC Form 1.

Audit Issue

It does not appear that the filing schedule RR-3-10 includes all related vegetation management expenses:

Certain vegetation management jobs originally coded to account 8830-2-0000-56-5210-5931, Maintenance of overhead lines-trouble, account continue to post to that account for Liberty's tracking consistency with descriptions "accrual-veg mgmt" summing to $37,698.

8830-2- 9851-56-5210-5920 Maintenance of Station Equipment includes $50,487 Asplundh (as reclassification) that was not part of the Vegetation Management RR-3-10 schedule.

Account 8830-2-0000-56-5210-5980, Distribution Maintenance-Miscellaneous Distribution Plant, includes one debit, in the amount of $45,430.39 for job 8830-VM1215-18L4 4, Asplundh Tree Experts.

Audit Recommendation

It is recommended that the filing schedule RR-3-10 be updated to include the above expenses, and remove the expenses from the 591, 592, and 598 O&M portions of the filing. It is understood that the overall O&M is not impacted. If the accounts are not considered part of the vegetation management program, the Company should indicate the reasoning.

Company Response

In reviewing the adjustment for Vegetation Management, and the above referenced charges related to vegetation management but hitting non-veg management accounts, several items have been noted for adjustment to the revenue requirement:

- Two of the three amounts referenced in the audit issue above are in fact vegetation management expenses not reported in the appropriate accounts. As such these should have been reported in one of the vegetation management FERC 593 accounts, which would have resulted in a reclassification to the vegetation management deferral GL account:
    - $50,487 should be removed from Distribution O&M expenses on Schedule RR-2-1, Line 60. This would represent an adjustment moving this amount to the vegetation management deferral FERC 1827, where vegetation management O&M in distribution rates does not exceed $1,500,000 per Order No. 26,005.
    - $45,430.39 should be removed from Distribution O&M expenses on Schedule RR-2-1, Line 60. This would represent an adjustment moving this amount to

the vegetation management deferral FERC 1827 at year end, where vegetation management O&M in distribution rates does not exceed $1,500,000 per Order No. 26,005.

- The remaining amount of $37,698 represents an accrual for vegetation management expenses incurred but not yet paid as of December 31, 2018. This amount was recognized and included in a year-end adjustment at December 31, 2018 and therefore is already included within the $1,500,000 vegetation management expenses recovered through distribution rates, or is included in the vegetation management deferral FERC 1827 accordingly.

Audit Comment

Audit concurs with the Company response and anticipates an update to the filing.

Audit Issue #20
State Education Tax

Background

Liberty pays municipal property taxes as well as a Statewide Utility property tax expense. Because of the Statewide tax, the municipalities are not supposed to include the state education tax portion of the rate on Liberty's municipal tax bills.

Audit Issue

The Company included the State Education Tax in the property tax expense. This is not supposed to be assessed on utility property at the municipal level. The 2017 second issuance represents the January – March period, the 2018 1st issuance represents the April through September, and the 2018 second issuance represents October through December.

The following towns included statewide education property tax.

Town	Parcel	Date	State Ed. Tax	
Charlestown	103-050	2017 2nd	$60.95	
Langdon	1-00000-0	2017 2nd	$1,352.40	
Lebanon	103-14	2017 2nd	$4,286.50	
Salem	89-1099	2017 2nd	$94.28	
Salem	114-10116	2017 2nd	$89.03	
Salem	116-9915	2017 2nd	$1,404.02	
Salem	116-9915-2	2017 2nd	$106.70	
			$7,393.88	*50% = $3,696.94
Langdon	1-00000-0	2018 1st	$2,705.07	
Lebanon	103-14	2018 1st	$4,286.50	
Salem	89-1099	2018 1st	$188.56	
Salem	114-10116	2018 1st	$178.07	
Salem	116-9915	2018 1st	$2,808.05	
Salem	116-9915-2	2018 1st	$213.41	
			$10,379.65	at 100% = $10,379.65
Langdon	1-00000-0	2018 2nd	$1,358.74	
Lebanon	103-14	2018 2nd	$4,232.47	
Salem	89-1099	2018 2nd	$95.52	
Salem	114-10116	2018 2nd	$90.21	
Salem	116-9915	2018 2nd	$1,422.50	
Salem	116-9915-2	2018 2nd	$108.11	
			$7,307.55	*50% = $3,653.78
Total All				$17,730.37

Audit Recommendation

The Company should ensure the towns cease to assess the Statewide Education portion of the property tax rate.

The filing should be updated to reduce the Property Tax expense calculation, by ensuring that the proforma figures do not include the Statewide Education portion of the invoices.

Company Response

The Company agrees with the recommendation and will reach out to the towns that have mistakenly assessed the state education tax and request for a recalculation of the 2019 tax bills to exclude the state education tax.

Audit Comment

Audit concurs with contacting municipalities, and encourages the recalculation of the proformed property tax expense included in the rate case.

Audit Issue #21
Income Tax Expense

Background

The Company indicated the Company Income Tax Expense was over-stated.

Audit Issue

On 12/31/2018 the 8830-2-0000-10-1163-1430, Income Tax Receivable was credited $(188,284.00), offset with a debit to 8830-2-0000-80-8710-4090. The Company booked $99,215 based on the 2017 GSE Income Tax Expense per the federal tax return. The Company estimated a similar amount for 2018 based on the 2017 NHBET. Since the 2018 Income Tax Expense is overstated by $89,069 the Company will need to adjust the filing.

Audit Recommendation

The Company needs to adjust the filing by $89,069 so the Income Tax Expenses are not overstated.

Company Response

The Company has reviewed and is in agreement with Audit Staff's recommendation with regard to this audit issue.

Audit Comment

Audit concurs.

Audit Issue #22
O&M Payroll Adjustments

Background

Audit reviewed the trial balance and O&M accounts for payroll expenses.

Issue

Audit discovered that $1,444 in vouchers were charged to the incorrect cost code and included in the total O&M payroll. Audit recommended removing this amount from the total O&M payroll for the year.

During the review of the O&M Expense accounts Audit discovered a mapping error in which payroll was charged to the 5210 account and not the 5010 account. As GSE pulled the payroll total using only 5010 accounts, the $19,344 charged to the 5201 accounts were not included. Audit recommend adding $19,344 to the O&M payroll total for the year.

Recommendation

Schedule RR-3-01 states the 2018 O&M payroll was $7,081,853 for the year. Audit recommends removing $1,444 and adding $19,344 resulting in a new total of $7,099,753. It is understood that movement of the expenses between accounts has no overall impact on the O&M expenses for the test year.

Company Response

The Company agrees with Audit Staff's recommendation with regard to this audit issue.

Audit Comment

Audit concurs.

Audit Issue #23
Severance Paid in 2018

Background

OCA Data Request 1-29 requested the amount of severance expense recorded on the Company's books in 2018. GSE response noted that $52,224,83 was paid in severance and booked to GSE in 2018. A revised response was then submitted noting that the severance amount was $70,985.70

Issue

Audit requested the general ledger accounts to which the severance was booked. In GSE's response, it was noted that the revised OCA 1-29 data request response was incorrect and the actual amount paid in severance was $57,757.20.

Recommendation

Audit recommends providing a second revised response to OCA Data Request 1-29 to put on record that the actual severance amount paid in 2018 was $57,757.20

Company Response

The Company provided a second revised response to OCA data request 1-29 on January 3, 2020 with the following explanation with respect to the amount of severance in 2018:

> *As a result of further inquiry during the audit process, it was determined that the amounts in the Revised Response…were overstated as they were provided using standard Company allocation percentages rather than using the actual allocations specific to each employee…The correct amount of 2018 severance paid out and booked to Granite State was $57,757.20.*

Audit Comment

Audit appreciates the response and the updated response to the OCA.