STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: August 30, 2013
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor
Bridget Nelson, Examiner
Debra Piaseczny, Examiner
James Schuler, Examiner
Paul Tessier, Examiner

SUBJECT: Granite State Electric Company d/b/a Liberty Utilities
DE 13-063 – Test Year 12/312012
FINAL Audit Report

TO: Tom Frantz, Director, Electric Division, NHPUC
Steve Mullen, Assistant, Director Electric Division, NHPUC

Introduction

On February 27, 2013, Granite State Electric Company (GSE) filed a notice of intent to file rate schedules, and on March 29, 2013 filed the rate schedules with the Commission. The filing proposes a permanent rate increase of $14,168,940, or an anticipated average increase to customers of 18%. References within this report to the filing relate to the March 29, 2013 permanent rate documents. Any updated schedules resulting from Data Requests have not been re-reviewed. The test year ending December 31, 2012 is a combination of the National Grid (prior owner) books and records from January through June, and Liberty NH books and records from 7/3/2012 (transaction date) through 12/31/2012. Activity which took place on 7/1/2012 and 7/2/2012 was not specifically identified or reviewed.

Testimony of the President of GSE indicates that the last full rate proceeding was in 1996. Rates currently in effect were set (via master settlement agreement) in docket DG 06-107, approved by Order No. 24,777 issued on July 12, 2007.

Audit thanks the following Liberty employees for their assistance during the audit fieldwork: Kevin McCarthy, Vice President, Finance; Linda Doering, Director of Finance; Jim Riordan, GSE Accountant; Paul Kinch, Accounting Manager; Geraldine DiNapoli, Plant Accountant; and Diane Cunic, Payroll Specialist.

Corporate Structure

Granite State Electric Company is 100% owned by Liberty Energy NH. As noted in Mr. Del Vecchio's testimony, "*Liberty Energy NH is part of a group of utilities operating as a subsidiary called Liberty Utilities, whose ultimate parent is Algonquin Power Utilities Corp.*" The purchase of Granite State Electric, along with EnergyNorth Natural Gas, by Liberty from National Grid was effective July 3, 2012. See docket DG11-040 for Commission approval of the purchase.

The corporation is structured:

Algonquin Power and Utilities Corporation (APUC)
- APUC owns Algonquin Power Co., which operates unregulated facilities.
- APUC also owns Liberty Utilities (Canada) Corp. (LUC)
  - LUC owns Liberty Utilities Co. (US financing division);
    - Liberty Energy Utilities Co.;
    - Liberty Energy Utilities, NH;
      - Granite State Electric Company (GSE)
      - EnergyNorth Natural Gas, Inc. (ENNG)

The workforce for both GSE and ENNG are direct employees of Liberty Energy Utilities, which functions as the service company supporting both regulated utilities. Neither GSE nor ENNG has its own payroll.

As outlined in the Cost Allocation Manual (CAM) provided to the Commission in docket DG11-040, 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.

Costs at the Liberty Utilities (Canada) Corp. 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.

Costs at the Liberty Energy Utilities NH level represent local billing and customer service expenses, allocated on a customer count basis; commodity procurement services, and all other administrative services. Employees in NH work for the Liberty Utilities NH division. All costs are therefore allocated between Granite State Electric and EnergyNorth Natural Gas, Inc (ENNG). Aside from the billing and customer service costs, all other costs are billed on a four factor method. For 2012 the allocation was reported to be 30% GSE, 70% ENNG. The factor was calculated in the following manner according to the Company's response to Audit:

	GSE	ENNG	Total	Description
Plant (1,000)	81,380	225,506	306,886	12 mo. historical 6/30/2012
Customers	42,471	88,395	130,866	actual as of 6/30/2012
Expense (1,000)	12,175	13,695	25,870	6 mo. Actual 6 mo. budget
Labor (1,000)	8,665	15,221	23,886	6 mo. Actual 6 mo. budget
Total	144,691	342,817	487,508	
Percentage	30%	70%	100%	

Audit confirmed that the Granite State Electric Company is registered with the Secretary of State, and is in good standing.

Board of Directors

Audit requested and was provided with minutes of the Granite State Electric Company Board of Directors. Prior to the sale of GSE from National Grid USA to Liberty Utilities, the board was comprised of three directors who appointed officers of GSE and voted to retain PricewaterhouseCoopers as external auditors for fiscal years ended 3/31/2012, and 3/31/2013.

In June 2012, an exchange of 60,400 shares of stock, held in the name of New England Electric System (predecessor to National Grid USA) was made to National Grid USA, with par value of $100 per share. An executed version of the stock power dated 7/3/2012 indicated the sale of 60,400 shares of Granite State Electric Company from National Grid USA to Liberty Energy Utilities (New Hampshire) Corp.

The first meeting at which the corporate owner is Liberty Utilities was held on July 3, 2012, at which the previous board's authority was revoked, the appointment of PricewaterhouseCoopers as external auditor was revoked, and the Chairman and CEO, President, and Treasurer and Secretary were appointed. The board resolved that the fiscal year of the corporation would be December 31 of each year.

A statement of unanimous consent of the Board of Directors, on 7/6/2012, resolved to approve the issuance of a note not to exceed $20 million. Refer to the Long Term Debt section of this report for more information.

A letter of resignation of Mr. Robertson, the Chairman and CEO of GSE was included in the minutes, effective 11/27/2012. Mr. Robertson also resigned his position as Director of GSE, effective 11/27/2012, as did Mr. Sorensen and Mr. Bronicheski.

A statement of unanimous consent appointed Mr. Robertson, Mr. Sorensen, and Mr. DelVecchio as directors of the Granite State Electric Company, effective 1/22/2013. The officers of the Company were appointed as follows:

President	Mr. DelVecchio
CEO and Chairman of the Board	Mr. Robertson
Treasurer and Secretary	Mr. Bronicheski
Vice President	Mr. Jarratt

KPMG, LLP Independent Auditors' Report as of 12/31/2012

KPMG conducted an audit of the Company for the period July 3, 2012 – December 31, 2012. Reference to the period prior to July 3 indicated the period from 4/1/2012 – 7/2/2012 was not audited, reviewed, or compiled by KPMG, or any independent firm. The prior audit for the fiscal year ended 3/31/2012 was conducted by PricewaterhouseCoopers, and the report noted an unmodified opinion.

The basis of the presentation of the financial statement (ending 12/31/2012) was noted to comply with section 12.1 of the lending agreements between GSE and Genworth Life and Annuity Insurance Company dated 11/1/1993 as modified 2/25/2013; First Colony Life Insurance dated 7/1/1995 as modified 2/26/2013; Paul Revere Life Insurance Company 7/15/1998 modified 2/25/2013 (the Note-holders). The provisions of this section of the lending agreements are "other than US generally accepted accounting principles". Audit requested the modifications, and was provided with copies of letters to each note-holder requesting "*consent to provide stub year financial statements*". Specifically, each note-holder was informed of the change in ownership, effective July 3, 2012 and of the change in fiscal year from March 31 to December 31. The one time request for a waiver of a full year financial audit resulted in the KPMG, LLP financial statement audit of the period July 3, 2012 through December 31, 2012; prior audit firm audited financial statement as of March 31, 2012; and an unaudited period of April 1, 2012 through June 30, 2012.

Overview of Filing to the General Ledger

On May 3, 2013, Audit provided an introductory letter to Granite State Electric requesting eleven specific items, and indicating that several others would need to be reviewed onsite. Of the eleven, the most critical to the audit work was the detailed general ledger for the test year. Because the year encompassed six months of activity while owned by National Grid and six months owned by Liberty, the combination of the income statement accounts had to be accomplished. Pivot table details of each Company's detailed general ledger were provided to Audit in a timely manner.

All accounts, both income statement and balance sheet related, were compared to the rate filing as submitted in March 2013. Several variances resulted, and throughout the audit fieldwork, reconciliations were requested. Eventually reconciliations were provided, some of which identified the variances.

In the same introductory letter, Audit requested all recurring journal entries and all year-end entries. A summary of the year-end adjusting entries was not provided. After detailed review of all accounts to the filing, Audit compiled a listing of what appeared to be the adjusting entries. The compilation was provided to the Company via an audit request for clarification on 07/23/2013. The ten journal entry codes, reflecting 26 accounting entries, summed to $3,089,379.91. The Company responded to the request on 07/26/2013 indicating that only one additional entry, in the amount of $0.42 had not been included in Audit's compilation.

On 06/10/2013**,** a trial balance for the period ended 12/31/2012 was requested. On 07/19/2013 the trial balance was provided. Audit reviewed the trial balance and noted that the net (Liberty) debit and credit activity for the period did not agree with the detailed general ledger. The detailed general ledger reflected total debits and credits of $826,315,837 while the trial balance reflected total debits and credits of $812,515,003, a difference of $13,800,834.

On 07/26/2013, The Finance Director provided the activity for six accounts with year end balances of zero. The initial trial balance provided had not included the accounts, as they had been identified in the system as inactive (on a going forward basis).

As a result of the Liberty GSE trial and detail general ledger not agreeing, Audit summed the National Grid detailed general ledger for the period January 1 through June 30, 2012. The detail was provided as a pivot table, along with a summary report (in excess of 24,000 lines) of all debits and credits for the period. On July 29, 2013, Liberty, in response to a request for clarification of why the debits do not equal the credits, provided the following response via email:

> "*The attached financials tie out to the file that was provided with the exceptions noted below. Sign issues must be causing the rest of the problem. Attached are the unaudited Granite State Income statement and Balance Sheet for Jan – June 2012. What we identified so far as differences to the spreadsheet and pivot table are:*
>
> > *The BS differs by 4 accounts*
> > *Injuries and damages 800K*
> > *Long term interest 63.7K*
> > *Customer deposits 12.4K*
> > *Retained earnings <535.9K>*
> > *Net $340K"*

The PUC Audit Staff had been utilizing the financial pivot table information provided for the periods in which Granite State Electric was owned by National Grid as well as the period in which they are owned by Liberty. The above information provided to Audit, almost three months after the information was first provided, has resulted in questioning of the validity of the reported financial information. **Audit Issue #1**

During the review Audit became aware of a number of accounts that were included in the filing but adjusted off the books in 2013 as part of the opening balance reviews. Many of the accounts that were adjusted off the Company's books were accounts that reflected only beginning balances from the purchase while others did reflect activity during the test year. While the adjustment occurred in 2013, outside of the test year, Audit requested a listing of the dates, accounts, amounts and offsetting entries from the Company. The listing provided by the Company included 42 entries totaling $1,866,572. Most of the entries were dated March 31, 2013, two were dated June 30, 2013 and one was dated April 16, 2013. The majority of the offsets were to account # 8830-2-0000-20-2115-2420, Due to Vendor and account # 8830-2-0000-10-1910-1141, Goodwill.

Audit had several questions regarding the accuracy of the adjustments such as mismatching account numbers and titles, debits versus credits and is therefore concerned with the reliability of the listing. Below is a compilation of the summary of the adjustments made in 2013 and a brief explanation of how they would have affected the filing. The original entries were provided to the Audit Staff on 07/26/2013 and a revised schedule of entries was received 8/2/2013:

Accounts Receivable	Filing reduced by credit of	$395,400
Matls & Supplies	Filing increase by debit of	$4,793
Prepayments	Filing increased by debit of	$3,228
Accrued Revenues and other	Filing reduced by credit of	$168,995
Deferred debits	Filing decreased by credit of	$820
Goodwill	Filing increased by credit of	$79,407
Accounts Payable	Filing reduced by debit of	$170,901
Accrued Expenses	Filing reduced by debit of	$309,429
Deferred Credits	Filing reduced by debit of	$156,271

Audit Issue #2

The annual report for GSE is the FERC Form 1. GSE requested and received permission from FERC to file their annual report 07/31/2013 for the period ending 12/31/2012. As a result, Audit was unable to compare the filing information to the annual report. Audit was also unable to locate and verify to the filing, those accounts that are typically listed below the line. Puc 1604.01 requires that a full year of financial information be included in the filing. After several requests for clarification of various interest accounts and miscellaneous revenue accounts, the Finance Director informed Audit that because those accounts are below the line they are not included in the filing. **Audit Issue #3**

Net Plant $88,446,845

Plant in service, per the Filing Schedule RR-4, is comprised of the following:

Utility Plant	$134,515,402
Depreciation Reserve	$ (55,447,764)
Construction Work in Progress	$ 9,379,107
Net Plant	$ 88,446,745

The Procedural Guidelines section of the policy defines plant assets as capitalized expenditures known as Units of Property (Retirement Units). It states that: “All asset additions should be analyzed to determine if there is an Asset Retirement Obligation (ARO) associated with it.” The guidelines explain that an approved plan to perform work should be in place prior to capitalization and that Accounting should be consulted prior to beginning any major project. All capital additions, replacements, retirements and removals are capitalized. Direct purchases of materials and tools are capitalized if the costs are equal to or greater than $2,500 for Granite State Electric. Costs include materials, direct labor and indirect costs such as engineering and supervision, payroll taxes and benefits, and transportation. The cost of plant retirements plus cost of removal net of salvage is charged to Accumulated Depreciation.

Maintenance and repairs are charged to the current operations. The costs of property, plant and equipment are depreciated using the straight-line method.

Plant in Service

Components and Plant Balances - General Ledger and the Filing

Total Plant in Service		General Ledger	DE 13-063 Filing
301	Organization	$24,808	$24,808
302	Software	-0-	-0-
303	Other Intangible Plant	-0-	-0-
	Total Intangible Plant	$24,808	$24,808
Distribution Plant			
360	Land and Land Rights	1,627,441	1,627,441
361	Structures/Improvements	369,982	369,982
362	Station Equipment	17,362,914	17,362,914
364	Poles/Towers/Fixtures	25,627,618	25,627,618
365	Overhead Conductors/Devices	34,849,460	34,849,460
366	Underground Conduit	4,577,090	4,577,090
367	Underground Conductors/Devices	9,726,252	9,726,252
368	Line Transformers	16,659,915	16,659,915
369	Services	7,552,255	7,552,255
370	Meters	4,558,214	4,558,214
371	Leased Property/Customer's Premises	1,170,298	1,170,298
373	Street Lighting/Signal Systems	4,225,154	4,225,154
374	Other	244,285	244,285
	Total Distribution Plant	$128,550,877	$128,550,877
General Plant			
389	Land	1,618,695	1,618,695
390	Structures/Improvements	2,240,270	2,240,270
391	Office Furniture/Equipment	28,780	28,780
392	Transportation Equipment	82,354	82,354
393	Stores Equipment	61,654	61,654
394	Tools, Shop, Garage Equipment	195,475	195,475
395	Laboratory Equipment	236,238	236,238
397	Communication Equipment	1,411,441	1,411,441
397.1	Site Specific	64,810	64,810
Total General Plant		$5,874,907	$5,938,717
	Total	**$134,514,402**	**$134,514,402**

Intangible Plant account #303

Intangible Plant contains a line item for Software with a zero balance. The Company states that currently, there are no Intangible Assets on Granite State's books and that all previous software systems were removed by National Grid prior to the sale date, 07/02/2012 (See CWIP section).

Also, the CWIP account contains costs described as Great Plains Implementation for $283,367.49 (See CWIP section for further discussion)

8830-2-0000-10-1647-3010 – Organization	$24,800
8830-2-0000-10-1647-3030 Other Intangible Assets	-0-
Software	-0-
Total Intangible Plant	$24,800

Other account #374

Included in the total of $244,285 are the following general ledger year-end balances:

8830-2-0000-10-1610-1210 – Non-utility Property	$ 32,086
8830-2-0000-10-1615-1010 – Plant in Service	$ 20,462
8830-2-0000-10-1615-1830-Preliminary Survey & Investigation	$170,737
	$244,285

There was one entry in the Non-utility Property account, which occurred in December 2012, for the purchase of non-utility land. The offset to the debit entry was a credit to Goodwill, account 8830-2-0000-10-1910-1141.

Activity in the Plant in Service account was noted to be the recording of the “receivings transaction”, that is, the original transfer of all plant in service amounts from Grid to Liberty. Additional entries from September through December sum to $20,462. Refer to Audit Issue #6.

The balance in the Preliminary Survey and Investigation account was primarily the result of an October 31, 2012 entry for $166,669, described as a reclass to account 183.

Charges to Preliminary Survey and Investigation are capitalized if it is determined by field operations personnel to be a capital project. The Company’s policy states that upon written notice from field operations, PS&I charges would be transferred to the Construction Work in Process (CWIP) account. If a capital project is not deemed feasible, PS&I charges are written off to expense by Plant Accounting.

Distribution Plant Additions

Audit requested the materials, equipment and supplies documentation, labor/payroll summaries for the plant additions and costs of removal for the several work orders spanning years 2008 through 2012. Included in the testing sample, audit requested the associated applied overheads, percentages and methodology. The request was issued on June 13, 2013 and was not addressed by the Company until July 18, 2013. **Audit Issue #4**

Audit did not receive supporting documentation for materials, equipment or supplies, payroll registers, or cost of removal and retirements. **Audit Issue #5**

Years 2010/2011/2012

- Account 364 - Poles, Towers and Fixtures

Work Order 0006909882 dated April, 2010 was for the addition of 10, 41' – 50' wood poles and 3, 51' – 60'wood poles in Lebanon, NH totaling $20,208. There were no retirements associated with additions and the sum of Capital Overheads was $1,646.

Work Order 0003878336 dated February, 2010 described as Distribution Electric Reliability, was for the addition of 10 non-unitized items in Walpole, NH totaling $53,565. There were 3 associated non-unitized retirements totaling $42,413 and the sum of Capital Overheads was $6,053

Work order 0006282527 was described as Third Party Attachment Request – SEG TEL for the addition of 3 poles in Pelham and 3 retirements netting out to zero dollars. The sum of Capital Overheads was $0.

Work order 0010606556 was described as Guys – All Types for the addition of 119 Guys, All Types in Salem totaling $19,259. There were no retirements associated with additions. The sum of Capital Overheads was $1,705.

The Continuing Property Records show additions, retirement, transfers adjustments and the beginning and ending balances. Activity for the test year was listed by account and supported with detailed continuing property records for additions placed in service by National Grid. The additions for the period after 7/2/2012 showed no asset detail in which to tie to the work orders. **Audit Issue #6**.

- 368 - Line Transformers

Work Order 0005962891 dated December, 2008 was described as CUTOUT, EXPULSION of 4 line transformers totaling $124,023. The sum of Capital Overheads was $30,263 and there were no retirements associated with additions. There was no location information given for the work order. **Audit Issue #7**

- 370 - Meters

Work Order 990000003 dated May, 2012 was described as the Large Meter Installation – Bare Cost for 961 new meters totaling $4,573. The sum of capital overheads was $421. No locations were noted on the work order. **Audit Issue #7**

2009/2010/2011

- 392 - Transportation Equipment

Bankers Lease Buy Out on 11/1/2010 in the amount of $82,354 represented the impact at the Salem and Lebanon offices of the GE Capital decision to terminate the lease business of

Bankers Lease, which GE purchased in 2008. National Grid determined that the two trucks that had been leased were used in the daily operation of the business and chose to fully purchase them (at the lease buyout of $41,177 each) rather than return them to GE. Prior to the lease buy out, the lease term had been treated as operational.

2008/2009

- 369 – Services

Work Order 0004810648 dated August, 2010 was described as Distribution Electric – Service Only Existing Customers. Line 1 totaled $5,336 and line 2 totaled $2,102. Line 3 totaled ($7,438) which netted the work order to zero dollars. The sum of Capital Overheads was $0. There was no location information given for the work order. **Audit Issue #7**

- 373 - Street Lighting and Signal Systems

Work Order 0006460964 dated April, 2009 was for overhead lighting described as HZN LUMM, ROADWAY, ALL SIZES non- unitized in the amount of $2,635. There were 14 additions and 12 retirements for the work order. The sum of Capital Overheads was $30,263

Work Order 0006460981 dated April, 2009 was for overhead lighting described as HZN LUMM, ROADWAY, ALL SIZES non- unitized in the amount of $4,051. There were 13 additions and 10 retirements for the work order. The sum of Capital Overheads was $30,263

Accumulated Depreciation and Amortization

Audit tied the total Accumulated Depreciation noted on the Filing Schedule RR-5-1 of $55,447,764 to the general ledger accounts below. The Company's policy states that the cost of plant retirements plus cost of removal, net of salvage, is charged to Accumulated Depreciation.

8830-2-0000-10-1655-1080 - Depreciation	$59,473,929
8830-2-0000-10-1655-1081 - RWIP Reclass	41,878
8830-2-0000-20-2124-2420 - Cost of Removal Accrual	(79,208)
8830-2-0000-10-1655-1082 - Accumulated Depreciation Cost of Removal	(4,279,480)
8830-2-0000-10-1655-1084 - Excess Depreciation	290,480
8830-2-0000-10-1655-1100 - Amortization of Plant	164
Total Plant Accumulated Depreciation and Amortization	$55,447,764

Excess Depreciation

Audit requested an explanation and the journal entries for the Revised Year-to-Date Depreciation column on the Company's spreadsheet.

The Company stated:

> *"as part of the sale of Granite State Electric to Liberty Utilities, National Grid provided a data file which contained all Granite State Electric Fixed Assets from*

their Power Plant System data base. In addition to statistical data related to each asset, the original asset cost, the accumulated depreciation, and the net book value were included in the file from National Grid. Some FERC Asset categories contained negative 'Net Book Values' (over-depreciated groups). The year to date depreciation had to be revised to accommodate uploading the file into the Great Plains Fixed Assets System, Liberty Utilities system. The Great Plains System would not allow the asset files to be loaded with over-depreciated assets and negative net book values. A journal entry was not processed in Great Plains because the system would not recognize negative depreciation. <u>To accommodate the system requirements to upload of the asset file into Great Plains Fixed Assets System, adjustments to the year to date depreciation was done off line to roll back accumulated depreciation to the same value as the asset cost and the net book value to a 'zero' net book value."</u>

Opening Balance Entries to Depreciation:

Journal entry to reclass <u>excess depreciation</u>:

8830-2-0000-10-1655-1080	Accum. Depreciation	290,480	
8830-2-0000-10-1655-1087	Excess Accumulated Depreciation		(290,480)

Journal entry to reclass <u>cost of Removal</u>:

8830-2-0000-20-2124-2420	Accum. Depreciation	290,480	
8830-2-0000-20-2930-2300	Excess Accumulated Depreciation		(290,480)

Journal entry to <u>reclass Depreciation to cost of Removal</u>:

8830-2-0000-10-1655-1084	Accum. Dep. - Cost of Removal	222,479	
8830-2-0000-10-1655-1084	Accum. Dep. - Cost of Removal		(222,479)
8830-2-0000-20-2124-2420	Correct J/E 12885		(4,057,000)
8830-2-0000-20-2124-2420	Reclass Acc. Dep. To Reg. Liab		(4,057,000)
8830-2-0000-20-2124-2420	Back Out J/E 12885	4,057,000	

<u>Depreciation Expense $4,867,174</u>

The Company reported the total depreciation expense on the filing schedule 1604.04:

360/361/362 - Land Rights, Substations, Structures	$282,609
364 - Poles, Towers, Fixtures	560,890
365 - Overhead Conductors	558,067
366/367 - Underground Conduits & Conductors	171,180
368 - Line Transformers	361,624
369 - Services	163,501
370 - Meters	97,744
373 - Lighting	114,725
374 – Other	2,556,835
Total Depreciation Expense per the filing schedule 1604	$4,867,174

Audit verified the expense total to the following general ledger accounts:

403000 Depreciation Expense	$ 782
403010 Depreciation Expense – LAB	$ 20,672
403030 Depreciation Expense-PAM	$2,415,822
403100 Depreciation Expense AR Costs	$ 140
8830-2-0000-80-8610-4030 Depreciation Expense	$2,429,759
8830-2-0000-80-8610-4032 Depreciation Expense – LAB	$ -0-
8830-2-0000-80-8610-4030 Depreciation Expense-PAM	$ -0-
8830-2-0000-80-8610-4030 Depreciation Expense AR Costs	$ -0-
Total Depreciation Expense per the general ledger	$4,867,174

The Company provided a rate schedule titled Granite State Electric Depreciation Rates showing the current depreciation rates by account number. These rates did not agree with the filing Schedule RR-5-6. Audit requested which rates are being used in the test-year and the Company provided the following responses:

"*we are not using the rates shown. Verification of the rates we are using is the FERC Form 1. We filed the Granite State FERC Form 1 for 2012 this week (July31st).*"

The Company's consultant provided the following in the depreciation study:

"Even if the depreciation rates are incorrect, the adjustments we made in the rate case adjust from the Depreciation recorded in the GL ($4,867,174) to the number computed by the Depreciation consultants ($5,483,216)."

Audit was not provided with individual asset additions or retirements therefore Audit was unable to ascertain the use of half-year convention for calculating depreciation expense. **Audit Issue #8**

Materials and Supplies

Audit sampled several purchases and tied the supporting invoices to the general ledger line item amount with no exceptions noted. However, a variance of $1,527 was noted with filing amount higher than the general ledger by $1,527.

8830-2-0000-10-1380-1540-M/S Per G/L	$414,405
M/S Per Filing Sch. RR-5-1	415,932
Audit Issue #9	($1,527)

Construction Work in Progress (CWIP)

Audit requested a listing of all projects that total the filing amount of $9,379,107 as well as information including location, starting date, estimated finish date and amount expended to 12/31/2012 for the three CWIP accounts: CWIP, Capital Accrual CWIP Additions and CWIP Clearing.

Account Number	Account Description	Dec. 2012
8830-2-0000-10-1618-1070	CWIP	$7,386,369
8830-2-0000-10-1618-1071	Capital Accrual CWIP – Adds.	154,853
8830-2-0000-10-1618-1072	CWIP Clearing	1,837,885
Total 107 CWIP		$9,379,107

Audit requested an explanation for $283,367 booked to CWIP described as Great Plains Implementation dated 10/10/2012.

The Company responded:
"*The original amount billed by Liberty Canada was a total of $2,320,124 of that amount $439,884 was directly attributable to EnergyNorth. Journal entry #3495 booked 30% of the remaining $1,880,240 to Granite State for a total of $564,072.01. Because this entry was not made through the AP sub-ledger the decision was made to reverse the original entry and continue to book and reverse the entry until the actual detail was entered through the AP system. The detail entry booked through the AP in September in journal entry #12288 (30% of $94,558). Journal entry #12064, was voided by journal entry #12,353 as this would have been a duplicate entry. These charges for initial system implementation have not been moved from CWIP to Plant in Service but the initial implementation of Great Plains is complete. There are further changes to the Great Plains this year to implement other modules*".

Project Bidding

As of the date of this report, the Company states that there is no published policy and that they have been operating in an environment where the following has occurred: **Audit Issue #10**

- *We have assumed a number of Multi-Year contracts from National Grid which were transferred to Liberty Utilities and we continue to operate under those terms and conditions. These contracts were bid and negotiated prior to being awarded by National Grid*.

- *We continue to follow Electric Material Standards that were developed under National Grid. Prior to the completion of the sale, commonly used materials that were available through a number of sourcing channels were placed to bid and the bid awarded to Graybar Electric. For materials that were specified to a sole source we continue to purchase through those manufacturers and distributors*.

- *We continue to bid out our large Electric Construction Projects consisting of Distribution Line Work, Underground and Civil work and Vegetation Management. All orders are evaluated based on price, quality and ability to meet schedule*.

- *All orders exceeding $25,000 are required to be signed by a Vice President. Earlier this year (May 2013) we adopted a Purchase Summary which summarizes the purchase / contract proposed, the reason for the expenditure, and whether the contract was competitively bid and if not the reason why (sole source, schedule, adopted standard*).

In summary, the buyers continue to review the marketplace on larger projects and determine if alternative markets exist for specific materials. As contracts begin to expire, GSE *"will be looking at qualified sources that can provide these contracts and services."*

Asset Retirement Policy

Audit was provided with a copy of the policy and procedures used by Liberty to retire fixed assets. Audit reviewed the Retirement Scenarios section and tested a work order against the policy (See Asset Retirements Section).

Overhead Percentages Applied to Capital Construction

Audit requested, as part of the work order testing, all applied overheads, percentages and methodology. The Company provided Audit with a particular month of burden rates and a sample work order to trace the rates to the work order.

Contribution in Aid of Construction (CIAC)

A payment received from the Town of Windham in the Fall of 2012 in the amount of $150,293, resides in account 1010 and is listed on the report as such. Per the Company, this payment has not been applied to the specific assets because a cost adjustment transaction is not available in the Great Plains System currently. The amount was reclassed from CIAC to Plant via a "top-sided entry".

The following was the Company's response for an explanation of a top-sided entry:

> "*a top sided entry is a generic term for any entry made "on top" or outside of a system. In this case a CIAC top side entry is the description given to a CIAC entry where the job had been closed a couple of years earlier. There was no job to apply the payment to. So an on top entry was made to the FERC 101 account until the original job is reopened the payment can be applied to the assets."*
>
> Also from that discussion, "*a payment from the Town of Windham has not been applied to the specific asset because a cost adjustment transaction is not available in the Great Plains system*". Per the company, "*currently this is an uncommon situation and at this time this is the only cost adjustment we are aware of. At the moment discussions are underway with the IS team regarding the system modification needed to complete the cost reduction transaction".*

Allowance for Funds Used During Construction (AFUDC) rates and methodology.

The Company stated that a review of all capital jobs is performed monthly to determine the jobs that have to be excluded from the AFUDC process. AFUDC is not assessed to capital jobs that have a status which indicates that construction is complete in the field.

The Company calculates the rates by taking 1/12 of the debt/equity pieces of the weighted average cost of capital and calculates the charges against 'qualifying' CWIP Jobs. In addition to jobs with completed status, blanket jobs and other short term or non-qualifying assets (e.g. furniture) are excluded from the AFUDC charge assessment.

AFUDC Rates:	Debt	Equity
Granite State Electric	2.73%	5.32%
Energy North	2.15%	5.32%

General Ledger Accounts used to record AFUDC were:

8830-2-0000-80-8550-4191 AFUDC-Borrowed Portion	$ -0-
8830-2-0000-80-8550-4320 AFUDC borrowed (Liberty)	$ (68,211)
432000 AFUDC Cr (National Grid)	$ (30,074)
8830-2-0000-40-4700-4191 Allowance for Other Funds Used Constn	$ (35,002)
4191000 Other Funds used during Construction (National Grid)	$ (85,960)
	$(219,247)

Activity in 8550-4191 reflected accruals and reversing entries offset to CWIP, as did the activity in 8550-4320. The 4700-4191 represents revenue which was also offset to CWIP.

Retirements

Total retirements noted on the National Grid's Cost Summary January – June 2012 schedule were $431,857. The total agrees with the respective National Grid general ledger amounts. Adjustments made by Liberty reduced the plant in service figures by a total of $1,757,646. Total plant in service noted in the filing agrees with the 12/31/2012 general ledger.

Audit was provided with a copy of the policy and procedures used by Liberty to retire fixed assets. Audit reviewed the Retirement Scenarios section and tested a work order against the policy (See Plant Additions Section).

The Procedural Guidelines section of the Utility Plant policy defines plant assets as capitalized expenditures known as Units of Property (Retirement Units). It states that: "*All asset additions should be analyzed to determine if there is an Asset Retirement Obligation (ARO) associated with it.*" The guidelines explain that an approved plan to perform work should be in place prior to capitalization and that Accounting should be consulted prior to beginning any major project. All capital additions, replacements, retirements and removals are capitalized. Direct purchases of materials and tools are capitalized if the costs are equal to or greater than $2,500 for Granite State Electric. Costs include materials, direct labor and indirect costs such as engineering and supervision, payroll taxes and benefits and transportation. The cost of plant retirements plus cost of removal net of salvage is charged to Accumulated Depreciation.

Maintenance and repairs are charged to the current operations. The costs of property, plant and equipment are depreciated using the straight line method.

CURRENT ASSETS $43,913,636

Current Assets, per the Filing Schedule RR-4, are comprised of the following:

Cash	$ 3,830,343
Accounts Receivable	$10,194,712
Due from Affiliates	$ 3,000,000
Materials, Supplies, Prepayments	$ 2,345,312
Accrued Revenues and Other	$ 1,715,239
Current Assets	$21,085,606
Deferred Debits	$28,325,234
Goodwill	$ (5,497,205)
Other Assets	$22,828,030

Cash $3,830,343

Audit met with the Company to review the cash reconciliations, verify them to the general ledger and to the filing.

The Company was allowed, by the Federal Energy Regulatory Commission (FERC), an extension to July 31, 2013, to file its Annual Report, FERC Form I. The NHPUC also uses the FERC Form I as its Annual Report.

Audit verified the filing cash reported on schedule RR-4 page 1 of 2 to the following general ledger accounts:

8830-2-0000-10-1020-1310 Cash-JP Morgan	$ 302,014
8830-2-0000-10-1020-1312 Bank of America xxx7513	$ 251,838
8830-2-0000-10-1020-1313 Cash Receipts	$ 10,356
8830-2-0000-10-1020-1315 Cash Clearing CSS	$ (32,714)
8830-2-0000-10-1060-1340 Other Special Deposits	$3,275,990
8830-2-0000-10-1921-1860 Def Dr Cash Over/Short	$ 22,859
Cash per the General Ledger	$3,830,343

Cash Bank Reconciliations

From the Company: "*We currently do not handle cash. We periodically receive checks that are deposited as received via a bank certified check scanner*."

National Grid, in accordance with the Account Reconciliation Procedure, provided GSE with approved and signed off as well as certified per Sarbanes-Oxley act reconciliations. The Company was asked if their bank reconciliations were Sarbanes-Oxley certified. During the 2012 test year, certification was not in effect. The Company is implementing such certification in calendar 2013.

A number of months were checked against the general ledgers to ensure the reconciliation processes were in place.

During the test year National Grid has been billing and handling the customer payments under a Transition Services Agreement (TSA). The three Cash accounts used are JPMorgan Chase #XXX634; Bank of America accounts #XXX513 and XXX844. Grid also provided a Sarbanes-Oxley certified reconciliation to "Balance GL to Cash Book" for general ledger accounts #131000; #131002 and #131010.

Cash Overs And Shorts Account #8830-2-0000-10-1921-1860 - $22,859

The Company has offered the following: "*The Def Dr-Cash Overs and Shorts account is used by National Grid as a clearing account if any daily cash items need further research to be posted to customer accounts properly*."

SYSTEM OF INTERNAL CONTROLS
Questionnaire

The Questionnaire is a series of common sense business questions given to the company contact person at the beginning of the audit. It provides a synopsis of what the auditors can expect. Who and what should be taking place in the operation of the utility.

1. Are monthly bank reconciliations done for all cash accounts? "*yes*"

2. Who is authorized to sign checks? "*Ian Robertson; Chris Jarratt; David Bronicheski; David Pasieka; Arthur Kacprzak; Luisa Read; John Peellegoda; Gerald Tremblay; Dwight Vanderwyk; Vic Del Vecchio; Kevin McCarthy; Linda Doering*"

3. Are cash receipts deposited daily? "*We currently do not handle cash. We periodically receive checks that are deposited as received via a bank certified check scanner*."

4. Does management review accounts receivable aging monthly? "*yes*"

5. Does management approve all write-offs of accounts receivable balances considered uncollectible? "*This process is currently being handled under a TSA with National Grid*."

6. How often are materials and supplies physically inventoried and reconciled to the General Ledger? Provide the date of the last physical inventory. "*Under National Grid, materials for Granite State Electric were apportioned as part of the Service Company inventory located in Sutton MA. At the time of the sale, Granite State Electric's portion of the inventory was $586,188.72 and was treated as a reconciling item at the time of the purchase. Since that time, we have been building the inventory levels at Granite and have not enabled system inventory counts to date. We expect to complete a physical count this calendar year and implement a cycle counting program moving forward*."

7. Do all management personnel complete time sheets or records? "*yes*"

8. Are all time cards approved by supervisors? "*yes*"

9. Is the payroll register approved before printing of payroll checks? "*yes*"

10. Does the Company or Board of Directors have an Audit Committee? Does the Audit Committee keep minutes of meetings? "*Granite State does not have an Audit committee*."

11. What is the minimum dollar amount for which Board approval is needed for expenditures? "*There is no dollar limit that triggers a board of directors vote. We have an internal approval authority document*."

12. What is the dollar minimum for which bids are sought? "*There is not a predefined level in place for determining when bids are required. Since the July 3 2012 transition from National Grid, there were contracts in place of which Granite State Electric had an obligation to continue service with existing suppliers. In addition, we as Liberty Utilities have issued a number of competitive bids for products and/or services where there are multiple options for purchases. These include electric line materials and equipment, electric line contractors, civil engineering contractors and engineering design services.*"

Accounts Receivable $10,194,712

The filing schedule RR-4 reflects a total accounts receivable balance of $10,194,712. Audit verified the total to the general ledger sum of:

Accounts Receivable			Description per Liberty
8830-2-0000-10-1101-1420	Customer Accounts Receivable	$ 49,001	Intercompany
8830-2-0000-10-1101-1421	*Customer AR-Misc, Billing*	*$ 6,020*	*Unused Grid, written off 2013*
8830-2-0000-10-1101-1423	Under Collect-Default/LR SV	$ 66,077	Over/under Default Service C
8830-2-0000-10-1101-1425	CSS	$ 8,001,801	CSS Customer Receivables
8830-2-0000-10-1101-1426	NSF Chargeback	$ (36,107)	CSS Chargeback Insufficient Funds
8830-2-0000-10-1101-1427	*Intercompany Receipts RI Gas*	*$ 2,935*	*Unused Grid, written off 2013*
8830-2-0000-10-1101-1429	REC Obligation	$ 2,196,519	Accrue for REC due to energy load
8830-2-0000-10-1103-1423	Customer AR Reserve	$ (28,699)	NGrid Energy Efficiency Reserve
8830-2-0000-10-1121-1460	Associated Company	$ 11,884	Intercompany
8830-2-0000-10-1160-1430	*Other Receivable*	*$ 281,086*	*Unused Grid written off 2013*
8830-2-0000-10-1160-1432	*Dependent Care Odd Year*	*$ (1,277)*	*Unused Grid written off 2013*
8830-2-0000-10-1160-1433	*Non-Associated*	*$ 183*	*Unused Grid written off 2013*
8830-2-0000-10-1160-1434	*Health Care Spending Account*	*$ 3,511*	*Unused Grid written off 2013*
8830-2-0000-10-1160-1435	*Transit & Park Fund Legacy*	*$ 177*	*Unused Grid written off 2013*
8830-2-0000-10-1160-1436	*Energy Supply*	*$ 1,635*	*Unused Grid written off 2013*
8830-2-0000-10-1160-1437	*Property Damage*	*$ 143,384*	*Unused Grid written off 2013*
	Sub-total Receivables	**$10,698,129**	

Allowance for Uncollectible Accounts			
8830-2-0000-10-1102-1440	Accum. Prov. Uncollectable	$ 334,992	Actual Customer Charge-offs
8830-2-0000-10-1102-1442	Bad Debt Expense-Misc. Billing	$ 87,919	Actual Customer Charge-offs
8830-2-0000-10-1102-1443	Reserve for Bad Debt Accrual	$ (808,786)	Reserve for overall bad debt
8830-2-0000-10-1102-1441	*Settlement Written-off Exp*	*$ 250*	*Unused Grid written off 2013*
	Total Allowance	**$ (385,624)**	
8830-2-0000-20-2111-2420	Unapplied Payments	**$ (117,793)**	not accounts receivable
	Total Accounts Receivable per filing	**$10,194,712**	

Accounts identified as "Intercompany" were reviewed in the Due to/Due from section of this report.

Accounts relating to customer receivables were reviewed in the Revenue portion of this report.

According to the description provided by Liberty, accounts identified as "*Unused Grid written off 2013*" sum to $437,904, one Allowance account in the amount of $250 was also written off. Audit requested the offsetting account and was told that the Due to Vendor account #8830-2-0000-20-2115-2420 was debited. That "*account is being used for final settlement of items related to the sale with National Grid.*" Refer to the Accounts Payable portion of this report as well as the Operations and Maintenance portion.

Audit requested clarification of the offsetting accounts to which the "unused Grid" receivable accounts initially posted. Three had no activity (since 2010 and 2009) and sum to $3,295. One was offset to CWIP #8830-2-0000-10-1618, $143,384; three were offset to Miscellaneous Service Revenue account #8830-2-0000-40-4210-4560 in the amount of $287,356. Two were offset to Salaries expense account #8830-2-0000-69-5010-9200 and sum to $2,234. One was offset to Purchased Power #8830-2-0000-52-5455-5552. These expenses, for the test year, should be considered Non-recurring.

Lastly, the Unapplied Payments in account 8830-2-0000-20-2111-2420 represent customer payments for line extensions, held in this account until the extension job is completed. Therefore, the ($117,793) represents Contributions in Aid of Construction, and thus should not be included in the Accounts Receivable net balance, as the funds appear to be on hand awaiting application to the extension job.

As a result, the filing Accounts Receivable total should be:

Filing Accounts Receivable total	$10,194,712
Less the Unused National Grid written off	$ (437,654)
Less Unused Grid Allowance account	$ (250)
Plus the Unapplied Payments account	$ 117,793
Adjusted Filing A/R Total	**$ 9,874,601**

Due From Affiliates $3,000,000

Granite State reported $3,000,000 of Due from affiliates on the rate filing (on schedule RR-4, Balance Sheets).

The Due From of $3,000,000 consisted of general ledger account # 8830-2-0000-10-1310-2603, Due From Liberty Utilities Co. The account reflected two entries both dated September 30, 2012 and included a reference of "Cash transfer to LU CANADA" in the amounts of $1,250,000 and $1,750,000. Both credit offset entries totaling $3,000,000 were to cash account # 8830-2-0000-10-1020-1310 and # 8830-2-0000-10-1020-1312.

Materials, Supplies, Prepayments $2,345,312

This line item in the filing schedule RR-4 page 1 of 2 is comprised of:

Inventory	$1,929,380-mis-labeled	Appears to be principally prepaid taxes
Pre-paids	$ 408,084-mis-labeled	Should be labeled as Inventory
Stores	$ 7,848	
	$2,345,312	

Each category was verified to the following general ledger accounts at 12/31/2012:

8830-2-0000-10-1240-1650	Prepaids	$ 121,655
8830-2-0000-10-1240-1651	Prepaid Employee Insurance	$ 3,228
8830-2-0000-10-1240-1653	Prepaid Taxes-Munic Property	$1,810,953
Sub-total Inventory-should be Prepaid		$1,929,380
8830-2-0000-10-1380-1540	Plant Materials/Operating Supplies	$ 414,405
8830-2-0000-10-1380-1542	Obsolete Inventory Reserve	$ (6,320)
Sub-total Prepaids-should be Inventory		$ 408,084
8830-2-0000-10-1380-1630	Stores Expense Undistributed	$ -0-
8830-2-0000-10-1380-1631	Stores Clearing Debits	$ 55,270
8830-2-0000-10-1380-1632	Stores Clearing Credits	$ (47,423)
Sub-total Stores		$ 7,848

Accrued Revenues and Other $1,715,239

The filing accrued revenues and other figure of $1,715,239 is comprised of:

Accrued Utility Revenue	$1,364,557
Other Accrued Revenues	$ 350,682
	$1,715,239

Accrued Utility Revenue $1,365,557

The filing schedule RR-4 reflects accrued revenue of $1,365,557. Audit verified the total to the general ledger:

8830-2-0000-10-1162-1730	Accrued Utility Revenue	$ 1,181,036
8830-2-0000-10-1163-1740	Miscellaneous Current Accrued Asset	183,521
		$ 1,364,557

The Accrued Utility Revenue $1,181,036 was verified to the unbilled revenue calculation provided to Audit and noted in the data requests: OCA Follow-up 1-4, Staff 1-13, and Tech Session 1-3. GSE FERC form 1 for the period ended 12/31/2011 reflected a year-end balance of $999,000, representing an overall change for the test year of $182,036.

Miscellaneous Current Accrued Asset account reflected only the posting of the National Grid balance of $183,521. National Grid activity for the six months prior reflected accruals and reversals of payroll related items, with activity for the period January through June summing to a credit of $(5,493).

Other Accrued Revenues $350,682

8830-2-0000-10-1250-1840	Misc. Billing Clearing	$ 364,985
8830-2-0000-10-1250-1841	Communication Expenses-Debit	$ 3,364
8830-2-0000-10-1250-1842	Communication Expenses-Credit	$ (6,729)
8830-2-0000-10-1251-1843	Trnsptn Exp DR-Clearing Only	$ 149,279
8830-2-0000-10-1251-1844	Transportation Exp-Debit	$ 101,701
8830-2-0000-10-1251-1845	Transportation Exp-Credit	$(261,919)
		$ 350,682

Audit reviewed the activity in each account and noted the account 8830-2-0000-10-1250-1840, Misc. Billing Clearing, reflected primarily reclassifications of fleet costs referenced to Hurricane Sandy-Massachusetts. (Refer to the Major Storms portion of this report) Account 8830-2-0000-10-1251-1843 also reflected primarily fleet fuel and lease accruals.

The remaining four, 1841, 1842, 1844, and 1845 reflected no activity other than the July entry to bring the account onto the books from National Grid. Activity in the first half of the test year indicated one journal entry each month, of varying amounts, which were offset to operations and maintenance accounts.

Audit requested clarification of the purpose of each account as well as the offsetting accounts and was told that the accounts are "*miscellaneous clearing accounts not revenue. The only account with activity for GSE since July is the 1250-1840. All of the others were written off as part of the opening Balance Sheet review*." (Refer to section the Overview of Filing to the General Ledger portion of this report) "*The 1250-1840 is used to accumulate costs for which the Company is seeking reimbursement. The most material items in the account at December 31, 2012 are mutual assistance costs for Hurricane Sandy where GSE crews assisted other utilities* *in restoration efforts after the storm. Additionally there are salaries for GSE employees that assist our related utilities and we then bill them for employee time and any expense related to the work. The cost maps directly to the clearing account to be billed, so the offset to these items is Cash and Accounts Payable because we have to pay the employees' salaries and any expenses incurred. There is no P&L impact.*"

Deferred Debits $28,325,234

The filing schedule RR-4, page 1 of 2, reflects total deferred debits of $28,325,234. The general ledger provided to Audit reflects total deferred debits in the amount of $28,773,234. The variance of $448,000 was the result of a year-end adjusting entry. Refer to the discussion in the Overview of Filing to the General Ledger portion of this report for additional information.

8830-2-0000-10-1920-1830 Preliminary Survey-do not use	$ -0-
8830-2-0000-10-1920-1860 Misc. Deferred Debits (PUC Prepaid)	$ 133,695
8830-2-0000-10-1920-1862 R/A Energy Efficiency Program	$ 566
8830-2-0000-10-1921-1862 Suspense-EPM Mapping	$ 97,350
8830-2-0000-10-1929-1820 Other Regulatory Asset FAS 109	$ -0-
8830-2-0000-10-1931-1810 Unamortized Debt Expense	$ 29,399
8830-2-0000-10-1930-1823 Other Reg Asset-Deferred Rate Case	$ 5,734
8830-2-0000-10-1930-1825 Storm Costs	$ 6,760,941
8830-2-0000-10-1930-1826 FAS 159-Pension	$21,636,697
8830-2-0000-10-1930-1827 Asset Ret Oblig. Reg Asset	$ 108,852
Total Deferred Debits per the general ledger	$28,773,234
Filing Total	$28,325,234
Variance **Audit Issue #11**	$ 448,000

Accounts 1920-1860, 1921-1862, 1930-1823, and 1930-1826 are discussed in the Operations and Maintenance portion of this report. Account 1920-1862 is discussed in the Annual Reconciliations portion of this report. Account 1930-1825 is discussed in the Major Storms portion of this report.

Goodwill $(5,497,205)

Audit verified the ending balance of $(5,497,205) to the Liberty asset account 8830-2-0000-10-1910-1141. Activity within the Goodwill account reflected almost $10 million debits and $15.4 million credits. Noted were references to FAS 158 Pensions, Goodwill NEES, FAS 109, purchase of Non-utility property (land), and CIAC tax gross up.

CAPITALIZATION AND LIABILITIES per Filing Schedule RR-4

Common Stock	$55,651,708	
Retained Earnings	$ (1,077,156)	
Proprietary Capital	$54,574,552	
Long Term Debt	$32,000,000	
Current and Accrued Liabilities		
Notes Payable	$ -0-	
Accounts Payable	$10,980,264	17 accounts
Due to Affiliates	$ 469,201	
Customer Deposits	$ 667,231	
Accrued Expenses	$12,438,371	
Total Current and Accrued Liabilities	$24,555,067	
Deferred Credits	$21,230,761	
Other Non-current Liabilities	$ -0-	
Customer Advances for Construction	$ -0-	
Deferred Income Taxes	$ -0-	

Common Stock $55,651,708

Common Stock as reported on schedule RR-4 of the rate filing was $55,615,708 which consisted of the following Liberty GSE general ledger accounts:

8830-2-0000-30-3010-2010	Common Stock Issued	$72,651,708
8830-2-0000-30-3700-4589	Dividend Paid Granite State	($17,000,000)
		$55,651,708

The Common Stock general ledger account reflected three entries, a beginning balance credit on 7/1/2012 of $72,902,484 and two subsequent purchase price adjusting entries on 7/3/2012 (JE # 12053) a debit of $2,261,776 with the offsetting credit to account # 8830-2-0000-20-2115-2420, Due to Vendor; and a credit (JE # 12285) of $2,011,000 with the offsetting debit to account # 8830-2-0000-10-1615-1141, Goodwill NEES. The activity nets to $72,651,708.

The Dividend Paid general ledger account, # 8830-2-000-30-3700-4589, reflected only one debit entry (JE # 28631) dated December 21, 2012 (the same date that the debt was issued) for $17M. See Long-term Debt section of this report for more information about the distribution of debt proceeds.

The "30" and "3700" portions of the general ledger account number designate this account as an equity account. The "4589" portion of the general ledger number which is, per the Great Plains Account Structure, supposed to be the FERC account designation could not be located in the FERC chart of accounts. The closest FERC accounts to 4589 are the revenue accounts 450-459.

<u>Retained Earnings $(1,077,156)</u>

Retained Earnings as reported on schedule RR-4 of the rate filing was debit $1,077,156. Schedule RR-2, Operating Income Statement, which only reported operating activities, reported a net operating loss of $759,251. The $17M of distributions was offset against common stock rather than retained earnings.

The Granite State (Liberty) general ledger reflected no retained earnings account. Because a complete income statement was not provided with the filing, the balance sheet of the filing reflected negative retained earnings of $1,077,156 and the operating income statement reflected an operating loss of $759,251, the income and expense accounts of Liberty's general ledger net to negative $938,074, Audit requested a reconciliation of the negative retained earnings of $1,077,156 reported in the filing

The Company provided a listing of the general ledger income and expense accounts that tied to the negative retained earnings of $1,077,156. However several of the accounts, shown below, did not tie to the general ledger. In each instance, the amount the Company provided as the filing balance, ties to the balance in the general ledger before closing/adjusting entries. While the Company did not initially provide the closing entry differences, Audit determined that they were attributed to closing entries #36349, #34040, #34041, #34043, #34047, #36168 and #34042.

General Ledger # and Description (8830-2-0000 has been omitted from the account # below)	Filing	General Ledger	Difference
40-4210-4561 Other Elec Rev-Open Access Rev-Transm	($7,464,306)	($7,790,873)	$326,568
51-5441-5650 Transmission of electricity by others	$6,098,460	$6,425,028	($326,568)
69-5043-9260 Employee pensions and benefits - 401k	$648,467	$329,385	$319,082
69-5280-9250 Injuries and damages	$241,277	$431,277	($190,000)
75-7450-4262 Def Comp Inv-Life Ins	$10,002	$2	$10,000
			$139,082

The retained earnings of ($1,077,156) reported in the filing was verified to the netted income and expense accounts from only the Liberty/GSE general ledger (7/3/2012 – 12/31/2012) and did not include the results from the National Grid general ledger (1/1/12 – 7/2/12).

The statement of operations for GSE reported the following operating and tax results:

Owned by	**Liberty**	**Ngrid**	**Ngrid**	
(in thousands)	7/3/12 - 12/31/12	4/1/12 - 7/2/12	1/1/12 - 3/31/12 (YE)	12 Months 2012
Operating (loss) income	($423)	($906)	$1,547	$218
Current Income tax (recovery) expense	$655	($331)	($2,458)	($2,134)
	($1,078)	($575)	$4,005	$2,352

Other than the above information provided in the audited financial statements, Audit was unable to determine what the National Grid "net income" contribution would be.

Long-Term Debt and Subsequent Distribution $32,000,000

Granite State reported long-term debt of $32,000,000 in the filing on schedule RR-4, as of 12/31/2012. The long-term debt tied back to the Liberty/GSE general ledger accounts below:

8830-2-0000-20-2840-2548	NP-LU & GS $3.4M 5YR@3.86%	$3,434,343
8830-2-0000-20-2840-2549	NP-LU & GS $7.9M 10YR@4.84%	$7,898,990
8830-2-0000-20-2840-2550	NP-LU & GS $4.1M 15YR@5.24%	$4,121,212
8830-2-0000-20-2840-2551	NP-LU & GS $1.5M 15YR@5.24%	$1,545,455
8830-2-0000-20-2910-2240	Other Long-term Debt	$15,000,000
		$32,000,000

The older $15M long-term debt (associated with the First Colony and Paul Revere issues) was booked to the correct FERC account # 224. The new debt, however, was booked to FERC accounts #2548, #2549, #2550 and #2551 which are classified under FERC as Deferred Credits – #254, Other Regulatory Liabilities and #255, Accumulated Deferred Investment Tax Credits rather than long-term debt. **Audit Issue #12**

The NGrid general ledger reflected an ending balance of $15M of long term debt in account # 224000.

Granite State recorded the following two general ledger entries (#28630 and #28631) on 12/21/2012. The first entry established the liability for the newly issued long-term debt and recognized the proceeds. The second entry recorded the immediate subsequent distribution of the "dividend" to Liberty Utilities New Hampshire and reduced the cash:

Journal Entry # 28630

Reference	GL Code	GL Description	Debit/ (Credit)
LU lends 17M to Granitestate	8830-2-0000-10-1020-1310	Cash - JP Morgan	$17,000,000
LU lends 17M to Granitestate	8830-2-0000-20-2840-2548	NP-LU & GS $3.4M 5YR@3.86%	($3,434,343)
LU lends 17M to Granitestate	8830-2-0000-20-2840-2549	NP-LU & GS $7.9M 10YR@4.84%	($7,898,990)
LU lends 17M to Granitestate	8830-2-0000-20-2840-2550	NP-LU & GS $4.1M 15YR@5.24%	($4,121,212)
LU lends 17M to Granitestate	8830-2-0000-20-2840-2551	NP-LU & GS $1.5M 15YR@5.24%	($1,545,455)
			$0

Journal Entry # 28631

GranStat pay DIV to LUNH	8830-2-0000-10-1020-1310	Cash - JP Morgan	($17,000,000)
GranStat pay DIV to LUNH	8830-2-0000-30-3700-4589	Dividend Paid - Granite State	$17,000,000
			$0

Granite State also provided the following information in schedule RR-6-1 of the rate filing. The schedule below reflects clarification of information through PUC Staff data requests. The anticipated additional new issuance of proforma debt of $13,533,216, with annual interest costs of $633,273 and debt issuance costs of $160,233 are not included:

Issue (Staff 1-19 & RR-6-1)	Maturity (Staff 1-19 & RR-6-1)	Description (RR-6-1)	Interest Rate (RR-6-1)	*Original Issue (RR-6-1)	Annual Interest Cost (RR-6-1)	Debt Issuance Costs (RR-6-1)	Annual Amort. (RR-6-1)	Total Annual Cost (RR-6-1)
11/04/93	11/01/23	First Colony Life-1	7.37%	$5,000,000	$368,500			$368,500
07/13/95	07/01/25	First Colony Life-2	7.94%	$5,000,000	$397,000			$397,000
05/15/98	06/15/28	Paul Revere Life	7.30%	$5,000,000	$365,000			$365,000
12/21/12	12/20/17	*2012 Issue-1	3.7383%	$3,400,000	$127,102	$40,256	$8,051	$135,153
12/21/12	12/20/22	*2012 Issue-2	4.5935%	$7,900,000	$362,890	$93,536	$9,354	$372,244
12/21/12	12/20/27	*2012 Issue-3	4.9506%	$4,100,000	$202,975	$48,544	$3,236	$206,211
12/21/12	12/20/27	*2012 Issue-4	4.9506%	$1,500,000	$74,259	$17,760	$1,184	$75,443
				$31,900,000	$1,897,726	$200,096	$21,825	$1,919,551

*The Original Issue amounts for the 2012 Issues 1-4 were preliminary (per OCA Follow-up 1-6 in reference to Staff 1-20 and Staff 1-19). The amounts reflected in the general ledger are the actual, however the preliminary amounts are reflected in this schedule because they tie to the total annual costs *calculated* by GSE and used in the filing.

Order No. 25,370 issued May 30, 2012 by the Commission approved the issuance of long-term debt (subject to Staff review of the final terms to be submitted prior to the closing) "*sufficient to establish a capital structure of 45% debt and 55% equity, based on the rate base level at the closing date, to finance the stock purchases*" and "*Granite State proposes to issue up to $20 million in new long-term debt in addition to retaining the $15 million in long-term debt currently outstanding*". The Order also indicated that "*the debt will be issued by Liberty Utilities Co. and assigned down to, and supported by promissory notes from, Granite State…*".

Because Audit was unable to locate the long-term debt information required by Order No. 25,370 to be submitted to Staff prior to closing, Audit requested a copy from the Company. The Company provided information that had been submitted to the Commission on July 16, 2012 with regard to the Company's board of directors approval to issue the long-term debt. That information included a fully executed copy of the resolution of the board of directors, Statement of Unanimous Consent to Action Taken In Lieu of a Special Meeting of the Board of Directors, dated July 6, 2012 authorizing the long-term financing associated with the acquisition of Granite State and a draft promissory note. The Liberty Utilities debt was issued in July 2012. Audit understood that the Order No #25,370, in docket DG 11-040, required the Company to provide the actual Granite State promissory notes to the PUC for approval just prior to closing which occurred on December 21, 2012. The Company failed to comply with the Order. The Company was reminded of this obligation and has since filed the Granite State Notes with the Commission and has indicated that the EnergyNorth Notes will be submitted once they have been revised and amended to reflect the Liberty Note rates. **Audit Issue #13**

Draft Promissory Note

Among other necessary information, the draft promissory note did not indicate an issue date, principal amount or name of borrower but did indicate (in part) the following:

> Paragraph 1, Interest Rate, of the draft note that was provided stated, in part, *"The Interest Rate shall be equal to (a) the interest rate payable on the Series A % Senior Notes due 20 (the "Liberty Notes") issued by Liberty Utilities Finance GP1 ("Issuer") and guaranteed by Lender pursuant to the terms of that certain Indenture by and among Issuer, Lender, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee, dated as of ________, 2012 and that certain First Supplemental Indenture by and among the same parties dated as of __________, 2012 (collectively, the "Indenture").*
>
> Paragraph 2, stated *"Issuance Costs. On the execution date of this promissory note, Borrower shall pay to Lender a lump sum amount of [____], which shall be equal to the issuance costs incurred by Issuer on the Loan."*
>
> Paragraph 5, of the draft promissory note, states under, Use of Proceeds, that *"Borrower may use the proceeds of the Loan for acquisitions and for general corporate purposes".*

Audit requested copies of the Liberty Notes and Indenture for comparison with the Granite State promissory notes.

The Company provided a copy of the fully executed First Supplemental Indenture dated July 2, 2012 which reflected in part that the "*…notes shall be in the aggregate principal amount of $225,000,000…*" and that the "*…Trustee shall initially authenticate and deliver Notes for issue in an initial aggregate principal amount of $135,000,000 for the First Closing, as defined in the Note Purchase Agreement, pro rata from each of the 3.51% Notes, the 4.49% Notes and the 4.89% Notes (the "Initial Issuance"), upon delivery to the Trustee of an Issuer Order for the authentication and delivery of such notes. The remaining $90,000,000 aggregate principal amount of notes will be issued upon an Issuer Order without the consent of any Holder and without any further supplement or amendment to the Original Indenture or this First Supplemental Indenture*."

The Note Purchase Agreement indicated that the first closing would take place on July2, 2012 and the second closing would take place on July 31, 2012 providing the Atmos Acquisition was scheduled before July 31, 2012. The information above has been summarized by Audit and is shown below.

Description	Initial Closing 7/2/12	2nd Closing 7/31/12	Total
3.51% Senior Notes Due July 31, 2017	$30,000,000	$20,000,000	$50,000,000
4.49% Senior Notes Due August 1, 2022	$69,000,000	$46,000,000	$115,000,000
4.89% Senior Notes Due July 30, 2027	$36,000,000	$24,000,000	$60,000,000
	$135,000,000	$90,000,000	$225,000,000

Audit was unable to find the actual dollar amount of the issuance fees in the Indenture however, the Algonquin Power & Utilities Corp. 2012 annual report (in the notes to the consolidated financial statements regarding the issuance of the $225,000,000 of senior unsecured notes) was a note that stated in relevant part that "*Liberty Utilities incurred deferred financing costs of $2,663,000, which are being amortized to interest expense over the term of the loan using the effective interest rate method".*

Granite State 2012 Promissory Notes

Audit requested and was provided with copies of the four original executed promissory notes issued by Granite State on December 21, 2012 reflecting Liberty Utilities Co. as the Holder. The notes mature in five, ten or fifteen years and reflect the following principals and interest rate terms shown below.

1. Five year note in the principal sum of $3,434,343 maturing on December 20, 2017 with an interest rate of "3.68% per annum, until the principal hereof is paid or made available for payment; and at the rate of the greater of (i) 3.68%, plus 2.0% or (ii) 2% over the rate of interest publicly announced by J.P. Morgan Securities LLC from time to time in New York, New York as its "base" or "prime" rate, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand) on any overdue principal and on any installment of interest (to the extent payment of such interest is legally enforceable)."
2. Ten year note in the principal sum of $7,898,990 maturing on December 20, 2022 with an interest rate of "4.84% per annum, until the principal hereof is paid or made available for payment; and at the rate of the greater of (i) 4.84%, plus 2.0% or (ii) 2% over the rate of interest publicly announced by J.P. Morgan Securities LLC from time to time in New York, New York as its "base" or "prime" rate, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand) on any overdue principal and on any installment of interest (to the extent payment of such interest is legally enforceable)."
3. Fifteen year note in the principal sum of $1,545,455 maturing on December 20, 2027 with an interest rate of "5.24% per annum, until the principal hereof is paid or made available for payment; and at the rate of the greater of (i) 5.24%, plus 2.0% or (ii) 2% over the rate of interest publicly announced by J.P. Morgan Securities LLC from time to time in New York, New York as its "base" or "prime" rate, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand) on any overdue principal and on any installment of interest (to the extent payment of such interest is legally enforceable)."
4. Fifteen year note in the principal sum of $4,121,212 maturing on December 20, 2027 with an interest rate of "5.24% per annum, until the principal hereof is paid or made available for payment; and at the rate of the greater of (i) 5.24%, plus 2.0% or (ii) 2% over the rate of interest publicly announced by J.P. Morgan Securities LLC from time to time in New York, New York as its "base" or "prime" rate, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand) on any overdue principal and on any installment of interest (to the extent payment of such interest is legally enforceable)."

All of the original promissory notes above reflect the terms below.

- The interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.
- Interest is due/payable semi-annually on January 30 and July 30 in each year commencing July 2013 (or, at the option of the registered holder hereof, on demand) on any overdue principal and on any installment of interest.
- Any interest payable for the above notes shall be deferred to the extent required to ensure compliance with respect to any of the existing promissory notes issued November 1, 1993, July 1, 1995 and June 15, 1998 totaling $15M without penalty.
- Notes are general, unsecured, obligation of the Company and may be prepaid in whole or in part by the Company.
- The Company agrees to pay on all costs and expenses, if any, including counsel fees and expenses, in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Note.

The above information from the original promissory notes is summarized below.

Issue Date	Maturity Date	Description	Interest Rate	Principal
12/21/12	12/20/17	NP-LU & GS $3.4M 5YR	3.68%	$3,434,343
12/21/12	12/20/22	NP-LU & GS $7.9M 10YR	4.84%	$7,898,990
12/21/12	12/20/27	NP-LU & GS $4.1M 15YR	5.24%	$4,121,212
12/21/12	12/20/27	NP-LU & GS $1.5M 15YR	5.24%	$1,545,455
				$17,000,000

Because the long-term draft promissory note submitted by Granite State to the PUC staff indicated that the interest rates on the Granite State notes shall be equal to the interest rate payable on the Series A % Senior Notes (the “Liberty Notes”) issued by Liberty Utilities Finance GP1, **Audit asked the Company about the apparent discrepancy. The Company responded by providing amended and restated promissory notes reflecting the Liberty Series A Notes** (3.51% for 5YR $3.43M, 4.49% for 10YR $7.9M, and 4.89% for 15YR $4.1M and $1.5M). The amended and restated notes were dated July 18, 2013 and indicated that the amended and restated rates would be effective as of December 21, 2012. The Company’s 2012 and 2013 books will need to be adjusted to reflect the correction. **Audit Issue #14**

Audit compared the promissory notes to schedule RR-6-1, Weighted Average Cost of Long-Term Debt, of the filing. The interest rates from the notes did not match the interest rates on schedule RR-6-1. Audit asked the Company from where the interest rates on RR-6-1 came since they do not match the rates reflected on the promissory notes. The Company explained that the notes would not tie to schedule RR-6-1 because the rates on RR-6-1 were the result of calculations.

Because the long term debt was authorized and issued by Liberty Utilities for the acquisition of Granite State and EnergyNorth, Audit also requested copies of the EnergyNorth promissory notes to Liberty. The summary below reflects the rates and amounts of both Granite State and EnergyNorth’s promissory notes to Liberty Utilities.

	Granite State		EnergyNorth		
Issue Date	Interest Rate (per Note)	Principal	Interest Rate (per Note)	Principal	Total
12/21/12	3.68%	$3,434,343	3.86%	$18,181,818	$21,616,161
12/21/12	4.84%	$7,898,990	4.84%	$41,818,182	$49,717,172
12/21/12	5.24%	$4,121,212	5.24%	$8,181,818	$12,303,030
12/21/12	5.24%	$1,545,455	5.24%	$21,818,182	$23,363,637
		$17,000,000		$90,000,000	$107,000,000

Long-Term Interest – Account #427

Granite State did not provide a complete income statement with the filing. The Company explained that the schedules in the filing "…*show the income statement down to operating income. Both long-term interest expense and amortization of debt discount and expense fall below the operating income line and are therefore not included*…". Therefore, Audit was unable to verify the long-term interest expense that would have been reflected by the Company below the line on a complete income statement.

The Company included a schedule of weighted average cost of long-term debt, RR-6-1, and a schedule of weighted cost of capital, RR-6, which was applied against the proforma rate base on schedule RR-1. However, the interest rates used in the debt schedule did not agree with either the Granite State Notes or the Liberty Utility Notes.

The general ledgers of National Grid and Liberty reflected the following long-term interest expense associated with the original $15M of long-term debt (the First Colony and Paul Revere issues) issued prior to the transfer of ownership:

Company	Account #	Amount
NGRID	427000	$ 565,250
Liberty/GSE	8830-2-0000-80-8540-4270	$ 559,172
		$ 1,124,422

The National Grid account # 427000, Interest on LTD, in the amount of $565,250 reflected six monthly interest expense entries of $94,208 each ($63,792 associated with the First Colony issues and $30,417 associated with the Paul Revere issue).

Liberty/GSE account 8830-2-0000-80-8540-4270, Interest on long term debt, in the amount of $559,172, reflected five monthly interest expense entries of $94,208 (for August – December) ($63,792 associated with the First Colony issues and $30,417 associated with the Paul Revere issue). The offsetting credit entries were to account # 8830-2-0000-20-2116-2371, Interest Accr.-LTD (see <u>Debt/Other Liabilities</u> section of this report for more on the interest accrual).

Audit did not request copies of these actual debt instruments, because they were issued in 1993, 1995 and 1998, but did perform a simple interest calculation based on the terms reflected in the filing and prior annual FERC reports. Audit determined that both the annual and monthly interest expense amounts are reasonable and tie back to the terms of the debt reported on prior year annual FERC reports and the filing.

Description	Interest Rate	Amount	Annual Interest	Monthly Interest
First Colony Life-1	7.37%	$5,000,000	$368,500	$30,708
First Colony Life-2	7.94%	$5,000,000	$397,000	$33,083
Paul Revere Life	7.30%	$5,000,000	$365,000	$30,417
			$1,130,500	$94,208

The variance of $6,078 between the $1,124,422 interest expense total from the two general ledger accounts versus the simple calculation of $1,130,500 can be explained by the fact that the NGrid general ledger provided was only through June 30, 2012 while the sale took place on July 3, 2012. The Liberty/GSE general ledger reflected prorated interest for July. The July interest expense entry was prorated to reflect interest from the date of purchase until July 31, 2012.

Interest on debt to associated companies #430

The Liberty/GSE general ledger reflected the following interest expense, for 11 days, associated with the $17M of inter-company long-term debt as originally issued by Granite State on December 21, 2012:

Account #	Account Description	Amt. Debit/(Credit)
8830-2-0000-80-8543-4300	Interest on debt to associated co	$24,399
8830-2-0000-20-2810-2603	Due to LU Co	($24,399)

Each of the two accounts listed above reflected three entries. Journal entry #19842 appeared to duplicate the interest expense, it contained two debits to account #8830-2-000-80-8543-4300 for $24,399 each and two credits to account # 8830-2-0000-20-2810-2603 for $24,399 each. Journal entry #30120 reversed one-half of the transaction leaving the balances shown above.

Audit requested and was provided with a schedule of the calculation of the inter-company interest which has been recreated by Audit and shown below. The calculation was based on 366 days in 2012.

Issue Date	Interest Rate	Principal	11 Days Interest Exp.
12/21/12	3.86%	$ 3,434,343	$ 3,984
12/21/12	4.84%	$ 7,898,990	$ 11,490
12/21/12	5.24%	$ 4,121,212	$ 6,490
12/21/12	5.24%	$ 1,545,455	$ 2,434
		$ 17,000,000	$ 24,399

Audit compared the Company's interest calculation to the original promissory notes and asked the Company why the calculation used 3.86% as an interest rate for the $3.4M 5 year note when the promissory note indicated 3.68%. The Company explained that it appeared to be an error and that the calculation would be corrected. The calculation and the Company's books will need to be further revised to reflect the corrected rates on the amended and restated promissory notes. No revised journal entries or calculations were provided by the Company. **Audit Issue #15**

Audit also asked the Company why the interest calculation computed interest using 366 days when the promissory note states that interest will be computed on the basis of a 360-day year. The Company explained that it appeared to be an error and that the 360 day year should be used. The amended and revised notes also indicate that 360-day year shall be used. **Audit Issue #15**

Unamortized Debt Expense – Account # 181

Granite State included $29,399 of unamortized debt expense (associated with the $15M of existing debt) within the $28,325,234 of Deferred Debits reported on the balance sheet, schedule RR-4. The Company stated that "*the unamortized debt expense is not included in rate base. It is shown on the balance that was included as schedule RR-4 as part of deferred debits on line 17*."

A comparison of the ending balance reflected on NGrid's general ledger versus the Liberty/GSE general ledger is reflected below:

Company	Account #	Amount
NGRID (6/2012 Total)	181000	$ 30,709
Liberty/GSE (Beg Bal)	8830-2-0000-10-1931-1810	$ 30,694
	Variance	$ 15

Audit considers the $15 difference immaterial.

The Liberty/GSE general ledger was opened with a debit balance of $30,694 as shown above and reflected credits totaling $1,295. The $1,295 of credits consisting of five credit entries of $218 each (for August – December) and one credit entry for $204 which was prorated for the month of July 2012 which resulted in an ending debit balance of in the account of $29,399. The offsetting debits were to account # 8830-2-0000-80-8541-4280, Amortize Debt Discount & Exp.

The NGrid general ledger (for January – June) account #181000 reflected six credit entries of $218 each which were offset to account #428000.

The Liberty/GSE general ledger did not reflect any additional unamortized debt discount related to the newly issued debt.

Amortization of Debt Discount & Expense Account #428 - $2,605

As mentioned above in the Long-term Debt Interest section of this report, Granite State did not provide a complete income statement with the filing. The Company explained that the schedules in the filing "*…show the income statement down to operating income. Both long-term interest expense and amortization of debt discount and expense fall below the operating income line and are therefore not included…*" Therefore, Audit was unable to verify the amortization of debt expense that would have been reflected by Granite State on a complete income statement.

Company	Account # and Description	Amt.
LU/GSE	8830-2-0000-80-8541-4280-Amortize Debt Discount & Exp	$ 1,295
NGRID	428000-Amortization Debt Disc & Exp	$ 1,310
		$ 2,605

The offsets to each of above were to the Unamortized Debt Expense accounts, #8830-2-0000-10-1931-1810 for Liberty/GSE and #181000 for NGrid.

Current and Accrued Liabilities $24,555,067

Notes Payable	$ -0-	
Accounts Payable	$10,980,264	Account Summary below
Due to Affiliates	$ 469,201	Due to Affiliate below
Customer Deposits	$ 667,231	See the Revenue section
Accrued Expenses	$12,438,371	Accrued Expense section
Total Current and Accrued Liabilities	$24,555,067	

Accounts Payable $10,980,264

The balance reported on the Filing Schedule RR-4 was verified to seventeen general ledger accounts:

8830-2-0000-20-2002-2321	A/P Audited Vouchers	$ 132,535	**
8830-2-0000-20-2003-2321	A/P Exceptional Payments NGG	$ (36,000)	**
8830-2-0000-20-2002-2328	A/P Unpaid Invoice Accrual	$ (1,251,631)	
8830-2-0000-20-2003-2320	A/P Bank Checks Outstanding	$ -0-	*
8830-2-0000-20-2003-2322	A/P NonAssocCo-Energy Supplier	$ (579,176)	
8830-2-0000-20-2003-2323	A/P Purchased Power	$ (3,298,808)	
8830-2-0000-20-2003-2324	A/P Liability Control Account CSS	$ 3,526	
8830-2-0000-20-2003-2327	A/P Employee Deduct Thrift Plan	$ (1,843)	**
8830-2-0000-20-2003-2328	A/P Employee Deduct Life Insurance	$ 16	**
8830-2-0000-20-2004-2321	A/P Other Cash Receipts	$ (447)	*
8830-2-0000-20-2004-2323	A/P Group Insurance	$ (325)	**
8830-2-0000-20-2004-2324	A/P Work Comp Claims	$ (37,358)	**
8830-2-0000-20-2004-2325	A/P Escheat Msc Exp DR TRM SLS	$ (291)	*
8830-2-0000-20-2004-2328	ISO NE AP	$ (1,987,064)	
8830-2-0000-20-2004-2329	A/P Unpaid Legal Accrual	$ -0-	
8830-2-0000-20-2005-2320	A/P System Benefit Charge	$ (111,023)	***
annual recon section of report.			
8830-2-0000-20-2115-2420	Miscellaneous Accrued Liability	$ (3,812,375)	
		$(10,980,264)	

* Accounts identified were reviewed in the Cash Section of this report.

** Accounts reflect one entry, the beginning balance, on 7/1/12. No other activity for these accounts was recorded.

*** The A/P System Benefit Charge account represents the net activity for the period relating to the Electric Assistance Program. Refer to the Annual Reconciliations portion of this report for additional information.

Account 8830-2-0000-20-2002-2328 contained accruals for AP invoice such as vegetation management invoices, TSA estimates and fleet accruals. Total entries contained $6,272,057 in debits and $7,523,688 in credits.

Account 8830-2-0000-20-2003-2322 contained Energy Service Company (ESCO) payments. Refer to the Operations and Maintenance portion of this report.

All purchased power estimates were posted to account 8830-2-0000-20-2003-2323. There were a total of 12 entries totaling $14,324,028 debits and $17,622,836 credits.

Account 8830-2-0000-20-2003-2324 contained entries for customer refunds, Purchase Power Liability true-ups and adjustments for a supplier received item that were questioned by Audit. Granite State has not responded to this request.

ISO NE AP account 8830-2-0000-20-2004-2328 contained 21 entries for ISO accruals and invoice payments. There were a total of $19,999,700 debits and $21,986,764 credits.

Account 8830-2-0000-20-2004-2329 had a beginning credit balance of $183,458. There were two journal entries from 12/31/12. JE#29973 was to reclass 2420 (Due to vendor) to 2329. JE#23144 was for a June legal invoice that Grid paid. The ending balance on the account was zero.

Account 8830-2-0000-20-2115-2420 reflects $4,836,551 of debits and $8,654,684 of credits and appears to primarily contain the monthly accruals for CTC, CSS, ISO LNS, TSA auto/property and workers comp and interest on ISO line of credit. However, in addition to the monthly accruals, the account also reflects a credit of approximately $780,000 associated with CIAC and unapplied payments and several transactions associated with Granite States purchase from National Grid. Per Granite State, "*This is the account that is being used for final settlement of items related to the sale with National Grid*."

Due to / Due from Affiliates

Due to Affiliates $469,201

Granite State reported $469,201 Due to Affiliates on the rate filing schedule RR-4. The $469,201 appears to tie back to the following general ledger accounts before closing entries #34054 and #34056 made on 12/31/2012:

Due to Affiliates		Ending GL Bal.	Closing Entries	Filing
8830-2-0000-20-2810-2603	Due to LU Co	$24,399		$24,399
8830-2-0000-20-2810-2606	Due to Liberty Energy NH	$491,057	($46,255)	$444,802
		$515,456	($46,255)	$469,201

34054	IS: A8810, Jrnl: 34047	8830-2-0000-20-2810-2606	Due to Liberty Energy NH	$69,383
34056	IS: A8810, Jrnl: 34049	8830-2-0000-20-2810-2606	Due to Liberty Energy NH	($115,639)
				($46,255)

Due to LU Co # 8830-2-0000-20-2810-2603 - $24,399

The Due to LU Co. general ledger account consisted of only three entries and reflected the offset of the intercompany interest expense associated with the newly issued promissory notes totaling $17M. The interest on the promissory notes is due twice a year on January 30 and July 30. See the Interest on debt to associated companies section of this report for more information.

Due to Liberty Energy New Hampshire # 8830-2-0000-20-2810-2606 - $491,057

The Due to Liberty Energy New Hampshire general ledger account which consisted of over 5,100 entries and roughly $82M of debit and credit activity reflected an ending credit balance of $491,057.

The account is primarily associated with the Accounts Payable account which flows through the Due To account because all vendor payments and all customer refunds are processed by the Service Company (#8810). As bills and invoices are received, the Service Company enters the direct charges into the system under the appropriate company number (#8830 for Granite State and #8840 for EnergyNorth) or allocates the shared charges between the companies based on a four factor model as described in the cost allocation manual (CAM). Nolan, a software program within the Great Plains System, automatically creates the necessary offsetting intercompany transactions (Due To – Due From) between the Service Company and Granite State and EnergyNorth. All employees work for and are paid by the service company. Employees direct charge their time to either Granite State or EnergyNorth. All payments are distributed to Granite State or EnergyNorth depending on the company to which the charge relates.

Due to Service Co (Do not use) #8830-2-0000-20-2810-2605 - $0

The Due to Service Co. (Do not use) general ledger account, reflecting a zero ending balance, was used between 7/5/2012-8/22/2012 and contained just over 600 entries and reflected $11,733,590 of debit and credit activity. The designation of the Do not use was implemented on 8/22/2012. The balance in the account at the time it was inactivated was transferred to 8830-2-0000-20-2810-2606. Activity within the account took place prior to designating the account as inactive.

Accounts Receivable Affiliates $60,885

Granite State reported accounts receivable of $10,194,712 on schedule RR-4. The Company explained that the following two general ledger accounts included in the total accounts receivable were affiliate/intercompany accounts:

8830-2-0000-10-1101-1420	Customer Accounts Receivable	$49,001
8830-2-0000-10-1121-1460	AR Associated Company	$11,884
		$60,885

Account # 8830-2-0000-10-1121-1460, AR Associated Company, included only seven entries, with five debits totaling $28,050 and two credits totaling $16,166 which resulted in an ending balance of $11,884. All of the entries were associated with intercompany billing for B. Plumb (see below for additional information regarding intercompany billing).

Account # 8830-2-0000-10-1101-1420, Customer Accounts Receivable, included 28 entries, with $6.88M of debits, $6.83M of credits and reflected an ending balance of $49,001. The largest two entries were recorded on 7/1/12. The first (# 11793) was a debit of $6.7M that was part of the original beginning balance entry and the second (# 12062) was a credit entry in the same amount that referenced "reclass beginning CSS AR" the debit offset of which was to account # 8830-2-0000-10-1101-1425, AR- CSS. The majority of the remaining entries were monthly receivables for intercompany billings for Calpeco and B. Plum, IDS services, border sales, AT&T rent and Fairpoint tree trimming.

Audit asked the Company for what the intercompany receivables and the IDS entries were. Regarding the intercompany receivables the Company explained "*These are intercompany bills for LU and GSE employees that have specialized skills and they are assisting either the corporate offices or some of our related utilities. We charge these other companies for the time and reduce GSE's payroll and benefit expense. Brian Plumb is the Director of Business Origination (M&A). Calpeco is (a) related utility owned by Algonquin in California*". Audit also asked how the charges were determined and if benefits were included. The Company explained that the *"…employee providing the service charges time directly to the appropriate job, there is no allocation involved"* and that *"the payroll charges are burdened with benefits and payroll taxes*". Audit selected several entries and confirmed that the offsetting entries for the employee billings were reductions to FICA, pensions and benefits and in the case of B Plumb the remaining offset was to salaries, while in the case of Calpeco the remaining offsets were to the "Misc Billing Clearing" account with a reference noted of "UPRCC Job Cost Payroll Summary".

Regarding the IDS entries the Company explained "… *IDS stands for Individual Data Services. They are charges to companies for energy usage data. These are usually purchased by energy suppliers participating in the NH Customer Choice Program. The supplier will contact LU for energy use data on a particular business' use of energy when proposing energy services to the company".*

It should be noted that the FERC chart of accounts for # 142 states in part "This account shall include amounts due from customers for utility service, and for merchandising, jobbing and contract work. This account shall not include amounts due from associated companies". Refer for further testing to the Accounts Receivable discussion within the Revenue section of this report.

Customer Deposits $667,231

Please refer to the Customer Deposits portion of this report, in the Revenue section.

Accrued Expenses $12,438,371

The total noted on the Filing Schedule RR-4 is comprised of twenty eight individual balance sheet liability accounts. By category, the total was verified to the general ledger, with a variance of $987 identified:

Accounts Payable	$ (3,818,133)	See Operations & Maintenance portion this report
Payroll	$ (476,952)	See Operations & Maintenance section this report
Regulatory Accrual	$ (152,867)	See Operations & Maintenance this report
Debt/Other Liability	$ (142,853)	See Debt & Other Liabilities portion of this report
Tax	$ (1,315,960)	See Tax portion of this report
Plant	$ (4,409,167)	See Plant portion of this report
Interest-Cust.Dep	$ (22,149)	See the Revenue portion of this report
Other Annual Recon	$ (2,100,290)	See Major Storms & Other Annual Reconciliations
TOTAL	$(12,438,371)	

<u>Deferred Credits $21,230,761</u>

The Company reported other deferred credits of $21,042,739 (credit) on Puc 1604.01(a)(1)a.b. attachment 1 line 50 and $21,230,761 on RR-4 (Balance Sheet), a difference of $188,022.

Audit requested reconciliations of both filing amounts to the two general ledgers. The Company provided the reconciliation below with just two columns “per the 1604 filing” and “final TB” on June 27, 2013 in response to Audit’s request to “provide a reconciliation of the Granite State Liberty and National Grid general ledger account numbers to the filing schedule Puc 1604-01(a)(1)a.b., attachment 1, line 50 for the Deferred Credits of $21,042,739”; Audit added the final column to reflect the variances between the 1604 filing and the final TB (general ledger) reconciliation provided by the Company.

Audit asked the Company about the $1.3M variance between the filing and the general ledger and the Company explained that the **“***the final trial balance includes year [end] adjustments that were not captured in the 1604 filing***”**. Audit compiled the following:

Deferred rate case:	Per the 1604 Filing	Final TB	Variance
8830-2-0000-20-2910-2541 NEES Pens OPEB-Purch Acct Adj	$1,270,604	$1,133,085	($137,519)
Other	($226)	($226)	$0
Total Deferred rate case	$1,270,378	$1,132,859	($137,519)
Other deferred credits:			
8830-2-0000-20-2760-2531 Def Cr-Miscellaneous	$60,965	$60,965	$0
8830-2-0000-20-2760-2534 Def Cr-Hazardous Waste	$128,700	$128,700	$0
8830-2-0000-20-2760-2535 Pension Costs	$14,697,246	$15,680,419	$983,173
8830-2-0000-20-2760-2536 Def Incentive Comp-Pensions	$8,068	($1,436)	($9,504)
8830-2-0000-20-2760-2538 FAS 106 Recovery	$4,669,519	$5,138,043	$468,524
8830-2-0000-20-2760-2539 FAS 112	$110,685	$110,685	$0
8830-2-0000-20-2760-2533 Def Incentive Comp	$96,952	$96,952	$0
8830-2-0000-20-2760-2532 Def Cr-Highway Reloc Billed	$0		$0
Total Other deferred credits	$19,772,135	$21,214,329	$1,442,193
Deferred Credits	$21,042,514	$22,347,188	$1,304,674

Audit also asked about the difference in the reconciled totals, “*Both the reconciliation request and the filing (schedule Puc 1604-01(a)(1) a.b., attachment 1, line 50) for the Deferred Credits are for $21,042,739 but the reconciliation that you provided in the attachment reconciles to a total of $21,042,514 a difference of $225, please explain.*”

Audit created the reconciliation below based on the Company's reconciliations provided on June 27, July 22 and clarification received on July 23. The general ledger balance column reflects the balance in the general ledger as of December 31, 2012, the total and subtotal in the Filing column tie to the two different deferred credits reported.

GL Account (#s below preceded by 8830-2-0000)	General Ledger Description	GL Bal. as of 12/31/12	YE Closing / Adj. Entries	Filing
20-2760-2533	Def Incentive Comp	$96,952		$96,952
20-2760-2534	Def Cr-Hazardous Waste	$128,700		$128,700
20-2760-2535	Pension Costs	$15,680,419	($983,173)	$14,697,246
20-2760-2536	Def Incentive Comp-Pensions	($1,436)	$9,504	$8,068
20-2760-2538	FAS 106 Recovery	$5,138,043	($468,524)	$4,669,519
20-2760-2531	Def Cr-Miscellaneous	$60,965		$60,965
20-2760-2539	FAS 112	$110,685		$110,685
20-2910-2541	NEES Pens OPEB-Purch Acct Adj	$1,133,085	$137,519	$1,270,604
	Other Deferred Credits 1604.01	$22,347,414	($1,304,674)	$21,042,740
20-2930-2280	Accum Provision Injury & Damages	$378,248	($190,000)	$188,248
20-2910-2542	Service Quality Penalties	($15)		($15)
20-2910-2543	Excess Earnings	($211)		($211)
	Deferred Credits per RR-4	$22,725,436	($1,494,674)	$21,230,762

8830-2-0000-20-2760-2533 – Def Incentive Comp $96,952

Deferred Incentive Comp account 8830-2-0000-20-2760-2533 reflects the beginning balance of $96,952. There was no other activity in this account.

8830-2-0000-20-2760-2534 – Deferred Cred-Hazardous Waste $128,700

The only activity in the account was a July entry for the entire balance.

8830-2-0000-20-2760-2535 – Pension Costs $15,680,419

Pension Costs, account 8830-2-0000-20-2760-2535 contained a beginning credit balance of $2,707,535. The account contained 6 monthly entries for $44,000 each. There was one entry on 12/31/2012 for $11,725,711 with the description of "Reg Asset for OCI". There was also a closing entry for $983,173 which was not included in the filing. The total of the general ledger is $15,680,419 less the closing entry of $983,173 which equals $14,697,246. The total agrees with the filing.

Total General Ledger	$15,680,419
Less: Closing Entry	$ 983,173 Audit Issue #1
Filing amount	$14,697,246

8830-2-0000-20-2760-2536 – Def Incentive Comp-Pensions $(1,436)

Account 8830-2-0000-20-2760-2536 contained a beginning debit balance of $1,436. There were six monthly entries for $1,000 and $584. There were also two closing entries for a total of $9,504 which were not included in the filing. The general ledger ending balance is $1,436.

Total General Ledger	$(1,436)
Less: Closing Entries	$(9,504) Audit Issue #1
Filing Amount	$ 8,608

8830-2-0000-20-2760-2538 – FAS 106 Recovery $5,138,043

FAS 106 Recovery account 8830-2-0000-20-2760-2538 has a year-end credit balance of $5,138,043. The account had a beginning credit balance of $4,438,519. There were 6 monthly entries for $38,500 for OPEB expense. There were two closing entries totaling a $468,524 credit. These closing entries were not included in the filing. The total general ledger in the filing was $4,669,519.

Total General Ledger	$5,138,043
Less: Closing Entries	$ 468,524 Audit Issue #1
Filing Amount	$4,669,519

8830-2-0000-20-2760-2539 – FAS 112 $110,685

FAS 112 account 8830-2-0000-20-2760-2539 had a general ledger balance of $110,685. This amount reflects the open balance. There was no other activity on this account. The general ledger balance was verified to the filing.

8830-2-0000-20-2910-2541 – NEES Pens OPEN-Purch Acct Adj $1,133,085

The beginning balance of account 8830-2-0000-20-2910-2541 was a credit of $1,368,829. There were 5 monthly $19,645 debit entries for NEES pension fair value amortization. There were also two adjusting entries totaling a debit balance of $137,519. The total general ledger balance is $1,133,085. The filing amount did not include the final adjusting entries.

Total General Ledger	$1,133,085
Less: Closing Entries	$ 137,519 Audit Issue #1
Filing Amount	$1,270,604

Accumulated Provision Injury & Damages # 8830-2-0000-20-2930-2280

The Company reported Accumulated Provision Injury and Damages of ($188,248) within the deferred credits totaling $21,230,761 on schedule RR-4 of the filing.

The Liberty/GSE general ledger account 8830-2-0000-20-2930-2280 reflected an ending credit balance of $378,248 a difference of $190,000 from the $188,248 reported in RR-4 of the filing. The $188,248 reported by the Company on RR-4 appears to be the balance in the general ledger account before the closing (credit) entry #36168 made on 12/31/2012 which increased the balance by $190,000 (the offsetting debit was to the Injuries & Damages expense account 8830-2-0000-69-5280-9250 covered in the O&M Section of this report).

Shown below is a comparison of the ending balance reflected on NGrid's general ledger versus the beginning balance recorded on the Liberty/GSE general ledger which reflects a difference of $800,000. **Audit Issue #1**

Company	Account & Description	Amount
NGrid	228200 -Injuries & Damages Reserve	($151,608)
LU/GSE	8830-2-0000-20-2930-2280- Accum Provision Injury & Damage	($951,608)
	Variance	$ 800,000

In addition to the closing entry mentioned above, the Liberty/GSE general ledger reflected $763,360 of debit activity the majority of which $445,392 was a claims reserve adjustment made on 12/31/2012. The offset was to account #8830-2-0000-20-2115-2420, Due to Vendor.

While this account is supposed to reflect the credit portions of the items charged to the Injuries and Damages expense accounts, Audit was not able to make the correlation.

Deferred Credit Hazardous Waste # 8830-2-0000-20-2760-2534

The Company reported $128,700 in the Deferred Credit Hazardous Waste. The total is included in the Deferred Credits totaling $21,230,761 of schedule RR-4 of the filing.

The Liberty/GSE general ledger reflected a beginning balance as of 7/1/2012 and ending balance of $128,700. There was no other activity noted. The NGrid general ledger account # 253006, Deferred Credit Hazardous Waste, reflected a 2013 total ending balance of ($128,184), a difference of $506.

Deferred Credit Miscellaneous # 8830-2-0000-20-2760-2531

The Liberty/Granite State general ledger account 8830-2-0000-20-2760-2531, Deferred Credit Miscellaneous, reflected a beginning and ending balance (no other activity was reflected in the account) of $60,965. The NGrid general ledger account #253000, Deferred Credit Miscellaneous, also reflected a 6/30/2012 balance of $60,965. The balance is included within the total Deferred Credits on schedule RR-4 of the filing.

Audit asked the Company what the purpose of the account was and how it was used by the Company. The Company explained that this account was adjusted off the balance sheet in June 2013 as part of the 2013 opening balance review; the offsetting entry was to account # 8830-2-0000-10-1910-1141, Goodwill. The memo associated with the entry stated "write off

NG allowance for unfinished/uncollectable CIAC jobs" (see the CIAC section of this report for more details). The filing should be adjusted accordingly. **Audit Issue #2**

Debt and Other Liabilities

The following accounts were included in the Accrued Expense totaling $12,438,371 (credit) of schedule RR-4 of the filing:

8830-2-0000-20-2116-2371	Int Accr-LTD	$142,792
8830-2-0000-20-2116-2373	Int Accr-M Pool-Assoc	$61
8830-2-0000-20-2142-2420	Curr&Accr Liab-TDI Reimb	($1,002)
		$141,851

Account 8830-2-0000-20-2116-2371, Interest Accrued-LTD, in the credit amount of $142,792 reflected $565,250 of debit activity and $708,042 of credit activity.

NGrid reflected a 6/30/2012 ending credit balance of $142,792 in account #237002, Interest Accrued-LTD. Liberty/GSE recorded a beginning credit balance of $148,870 in account 8830-2-0000-20-2116-2371, Interest Accrued-LTD. It appears that the beginning balance from NGrid should have been adjusted otherwise the accrual is overstated. **Audit Issue #16**

The accounts for both Companies consisted primarily of monthly interest accruals of $63,792 associated with the First Colony issues and $30,417 associated with the Paul Revere issue (the July accruals were prorated from the date of purchase). Audit verified that the accrual recorded tied to the simple calculation of interest performed in the Long-term Debt-Interest section of this report.

Account 8830-2-0000-20-2116-2373, Interest Accr-MPool-Assoc., in the credit amount of $61 consisted of only one entry (as part of the purchase) and tied back to the ending balance in NGrid account # 237004. Audit asked Granite State if the money pool notes payable and receivable and associated interest payable and receivables reflected on National Grid's general ledger were transferred to Liberty as part of the purchase. The Company explained that "*as part of the sale National Grid kept all of GSE's intercompany receivables from the money pool and any interest receivable due to money pool receivables*." The Company further explained in response to the accrued interest of $61 that "*as part of the [2013] opening BS review with NG, we posted a JE [on March 31, 2013] removing the balance from the account*." The offsetting entry was to account # 8830-2-0000-10-1910-1141, Goodwill. The filing should be adjusted accordingly.

Account 8830-2-0000-20-2142-2420, Current & Accrued Liability – TDI Reimb., in the debit amount of $1,002 consisted of only one entry as part of the purchase (no other activity was recorded during 2012). Audit asked the Company to explain the purpose of the account and how it was used. The Company responded that the balance in this account was adjusted off the balance sheet (in March 2013) as part of the opening balance sheet review the offsetting entry was to account # 8830-2-0000-20-2115-2420, Due to NG. The filing should be adjusted accordingly.

The debit offsets to the credit accruals were to the Long-term Interest expense account. In December when the semi-annual interest payment was made, the accrual account was debited and the Due to Liberty Energy New Hampshire account was credited.

REVENUE $77,756,745 per Filing Schedule Puc 1604.04

The filing Puc 1604.04 (a)(1)a.b. Attachment 1 Page 5 of 12 reflects total revenue of $77,756,745. Specifically:

Distribution	$23,869,650
Commodity	$36,665,612
Wholesale Transmission	$15,218,970
Forfeited Discounts	$ 117,251
Miscellaneous Service Revenue	$ 235,743
Rent from Electric Property	$ 283,642
Other Revenue	$ 1,033,380
Border/Fairpoint	$ 165,571
Miscellaneous Revenue	$ 166,926
Total Operating Revenue per the Filing	**$77,756,745**

Total Revenue per the General Ledger $78,083,313

See adjusting journal entry reducing the revenue per the GL by $326,568 which then agrees with the filing.

Total Revenue per the CSS $79,865,835

CSS is $2,109,090 higher than the filing and the general ledger. The CSS revenue total includes all "CONS Type" billing information, some of which do not map to revenue accounts. For example, the System Benefit Charge net total of CONS types AX and PP $2,647,739 posts to general ledger account 8830-2-0000-20-2005-2320. The NH Electricity Consumption Tax $551,121 posts to general ledger account 8830-2-0000-20-2550-2416. Therefore, the CSS total of $79,865,835 includes $3,198,860 which does not post to revenue accounts. The CSS total however, does not include items that are manual, such as unbilled revenue calculations, CIAC reimbursements, Fairpoint tree trimming costs, border sales, or manual adjustments.

The filing schedule RR-2 indicates that of the $77,756,745 total revenue, $51,884,582 represents flow-through. The total flow-through is comprised of:

Commodity	$36,665,612
Wholesale Transmission	$15,218,970
	$51,884,582 See discussions below.

Audit compared the revenue presented in the filing to the National Grid and Liberty general ledger accounts as follows:

Filing-Distribution and Miscellaneous	
Distribution Revenue per the Filing	$23,869,650
Border/Fairpoint revenue per the Filing	$ 165,571
Miscellaneous Revenue per the Filing	$ 166,926
Subtotal	**$24,202,147**

General Ledger	
#451020 Open Access Revenue Customer Charge National Grid	$ 1,329,080
#8830-2-0000-40-4210-4512 Misc. Ser Rev Open Access Cust Ch Liberty	$ 1,306,024
Subtotal Open Access Customer Charge per the General Ledger	$ 2,635,105
#456020 Open Access Revenue National Grid	$10,470,206
#8830-2-0000-40-4210-4563 Other Elec Rev Open Access Rev Liberty	$11,096,836
Subtotal Open Access Revenue Distribution per the General Ledger	$21,567,042
Total Open Access Distribution per the General Ledger	**$24,202,147**

Audit verified the total reported Distribution and Miscellaneous Revenues in the filing to the general ledger. The specific breakdown of the reported revenue could not be verified. **Audit Issue #17**

Regarding the Open Access Customer Charges for both National Grid and Liberty, Audit reviewed the activity in both accounts and noted CSS monthly postings, unbilled revenue postings, and beginning in November, Border Sales postings.

Regarding the Open Access Revenue accounts, as above, monthly CSS postings were noted for both National Grid and Liberty, as well as monthly unbilled revenue postings and Tree Trimming/Fairpoint billing entries. As above, beginning in November, entries relating to Border Sales were also posted.

The Border/Fairpoint revenue noted in the filing and specified in response to Staff Data Request #1-12 outlined Fairpoint revenue from August 2012 – December 2012 amounting **to $147,538** and Border Sales posting in November and December 2012 amounting **to $18,033**. Audit reviewed the National Grid and Liberty specific general ledger accounts and noted the following revenue posted each month during the test year:

Fairpoint/Tree Trimming		
National Grid account #456020 January	$ (76,765)	
National Grid account #456020 February	$ (76,765)	
National Grid account #456020 March	$ (76,765)	
National Grid account #456020 April	$ (76,765)	
National Grid account #456020 May	$ (76,765)	
National Grid account #456020 June	$ 40,973	
National Grid account #456020 June	$ (62,297)	
Liberty account 8830-2-0000-40-4210-4563 July	$ (47,182)	
Liberty account 8830-2-0000-40-4210-4563 August	$ (37,483)	
Liberty account 8830-2-0000-40-4210-4563 September	$ (31,790)	
Liberty account 8830-2-0000-40-4210-4563 October	$ (24,429)	
Liberty account 8830-2-0000-40-4210-4563 November	$ (26,238)	
Liberty account 8830-2-0000-40-4210-4563 December	$ (27,598)	
Total Fairpoint Revenue posted to #456	$(599,867)	
Filing	$(147,538)	
GL minus Filing variance	$(452,329)	**Audit Issue #18**

Audit understands that the Fairpoint Revenues relate to the Reliability Enhancement and Vegetation Management Programs which are reviewed and reconciled annually. Refer to the Annual Reconciliation portion of this report for other information.

Border Sales began in October with the signing of an agreement between Massachusetts Electric Company (MECO) and GSE. Audit was provided with a copy of the Service Agreement dated 10/1/2012 which outlines the addresses of the customers in Methuen MA who are serviced by the lines and energy of GSE but are actually MECO customers. Specifically, Appendix A states "Borderline Sales Specifications:

1. Borderline sales shall be provided on behalf of Customer at the following Delivery Points: Those delivery points contained on Appendix B. (Appendix B was noted to be the specific addresses of customers in Methuen, MA)
2. Applicable Rates: Granite State Electric Company d/b/a Liberty Utilities Rates D, G2, and G3.
3. Special Provisions Applicable to Customer (if any): None.

Audit reviewed the Border sales reconciliation which is a spreadsheet of each MECO customer and the related kWh (provided by National Grid). The reconciliation for MECO monthly billings is done and posted to GSE in the following month. GSE enters the information into CSS to calculate a monthly bill to MECO for the number of customers on the rate classes outlined in the agreement. Audit recalculated the charges per kWh without exception. Only one customer charge, however, was assessed at the highest rate of $24.98. It appears that the customer charge is assessed to MECO as the one customer, although that distinction is not noted in Appendix A. Had the customer charges been assessed on the number of actual customers included in each rate class, the total would have been $841 for October and $832 for November. **Audit Issue #19**

The general ledger accounts reflecting Border Sales revenues were:

GL Account	November 2012	December 2012	Total
#8830-2-0000-40-4210-4563	$(3,416)	$(3,358)	$(6,774)
Other Elec Rev-Open Access Rev-Distribution for Stranded Cost Recovery, Storm Recovery, and Distribution Charge			
#8830-2-0000-40-4290-4420	$(1,628)	$(2,043)	$(3,671)
Commercial Sales			
#8830-2-0000-40-4290-4400	$(3,411)	$(4,127)	$(7,538)
Residential Sales			
#8830-2-0000-40-4210-4512	$ (25)	$ (25)	$ (50)
Misc. Service Revenue-Open Access Customer Charge			
#8830-2-0000-20-2005-2320	$ (279)	$ (275)	$ (554)
A/P System Benefit Charge			
#8830-2-0000-20-2550-2416	$ (46)	$ (46)	$ (92)
Tx Coll Pay-Consumption Tax			
#8830-2-0000-40-4210-4561	$(1,408)	$(1,389)	$(2,797)
Other Elect Rev-Open Access Rev-Transmission charges			
TOTAL Billed to MECO			$(21,476)
Filing			$(18,033)
Variance GL minus Filing			$ (3,443)

Audit asked the Company how such disparity between the filing and the general ledger could occur for both the Fairpoint and Border Sales noted in the filing, and where the over-reported general ledger account postings are reflected. The Company responded that there were “mapping issues” and where the revenue was reflected in the filing would be researched. A response was not provided. The filing does not agree with the general ledger. See Audit Issues #17, #18 and #19.

Audit was unable to distinguish what accounts or CONS types comprise the $166,926 noted as “Miscellaneous” in the filing, despite the combined general ledger accounts agreeing in total with the Distribution filing totals. **Audit Issue #17**

Filing-Commodity	**$36,665,612**	
#440000 Residential National Grid		$10,548,826
#8830-2-0000-40-4290-4400 Residential Sales Liberty		$ 9,313,721
Subtotal Residential Sales per the General Ledger		$19,826,547
#442000 Commercial and Industrial Sales National Grid		$ 9,756,433
#8830-2-0000-40-4290-4420 C&I Sales Liberty		$ 8,121,744
Subtotal C&I Sales per the General Ledger		$17,878,177
#444000 Street Lighting National Grid		$ 27,075
#8830-2-0000-40-4290-4440 Public St and Highway Lighting Liberty		$ 22,821
Subtotal Street and Highway Lighting per the General Ledger		$ 49,895
#449130 Refund Provision National Grid		$ 411,354
#8830-2-0000-40-4290-4491 Provision for Refund Liberty		$ (1,536,361)
Subtotal Provision for Refund per the General Ledger		$ (1,125,007)
Total Commodity per the General Ledger		**$36,665,612**

The total $36,665,612 is part of the "flow-through" proformed out of the total revenue figure per the filing schedule RR-2.

Audit reviewed the activity in the National Grid #440000 and noted monthly CSS entries for Residential Water Heating customers, Time of Use, Regular, Low Income, Private Property Lighting, Ltd Electric Living, General Service Small, General Service Demand. Activity in the Liberty related Residential Sales account reflected monthly combined CSS sales, and beginning in November, Border Sales.

Activity in the Commercial and Industrial Sales general ledger accounts also reflected specific types of CSS activity in the first six months of the year (Regular, Private Property Lighting, Ltd Elec Living, Ltd Commercial Space, General Service Time of Use, General Service Small, General Service Demand), while the Liberty months reflect combined CSS entries as well as Border Sales.

Street Lighting was verified to each Company's general ledger with one monthly CSS entry only.

The Refund Provision accounts reflected deferrals of over/under calculations related to Default Service and the recording and reversing of the Renewable Energy Certificates (RPS) liability and normalization. Audit requested clarification of the Renewable Energy postings and was informed:

"*Each year based upon the estimated KWH load for the company a certain amount of renewable energy credits must be purchased (REC Obligation). At the beginning of the year Energy Procurement will provide accounting with an estimated REC obligation amount for the year. Each quarter we book an increased portion of the REC Obligation 25%, 52%, 75%, 100%. And each quarter we reverse the prior quarter so only the increment is booked to the quarter. Actual RECs cost are paid as part of purchased power. The entry is P&L and BS neutral. From discussion with Dave Tufts the Director of Regulatory Accounting at National Grid the accrual was introduced by PWC to recognize the REC obligation even though it's P&L and BS neutral*."

Balances at year-end were noted in the following accounts :

AR Rec Obligation	8830-2-0000-10-1101-1429	$2,196,519
Curr& Accrd Liab REC Obligation	8830-2-0000-20-2141-2423	$(2,196,519)
Provisions for Rate Refunds	8830-2-0000-40-4290-4491	$(1,234,760)
Purchased Power Variable	8830-2-0000-52-5455-5551	$ 1,234,760

Regarding the remainder of the balance in the Provision for Refunds, Audit noted $301,601 for commodity true-ups related to the Default Service over/under calculations.

Wholesale Transmission per the Filing **$15,218,970**

#456010 Open Access Revenue Transmission National Grid	$ 7,754,664
#8830-2-0000-40-4210-4561 Other Elec Rev Open Access Rev Tr Liberty	$ 7,790,873
Total Open Access Transmission per the General Ledger	**$15,545,537**
Variance Audit Issue #20	**$ (326,567)**

Open Access revenue (see the Filing "Other Revenue) was defined in response to Staff Data Request 2-2 (supplemental) in the following manner: "*Open Access-Rev Customer Access Charges are revenues from those customers who take distribution service only from Granite State Electric Company and purchase energy from a competitive energy service provider (as opposed to those customers taking distribution and default service)*."

Audit requested clarification of the variance, which was a late year-end accrual of $326,567. The Company responded that "*This was caused by a December Local Network Service invoice from New England Power Company received late due to National Grid's billing issues at the time. Since the cost was pass through and wouldn't have any P&L impact it was decided that the expense and revenue offset would be booked in December 2012*." Audit verified that the late entry was offset to account #8830-2-0000-51-5441-5650, Transmission of Electricity by Others.

The total $15,218,970 figure is part of the "flow-through" proformed out of the total revenue figure per the filing schedule RR-2.

<u>Forfeited Discounts per the Filing</u> **$ 117,251**

#450000 Forfeited Discount Electric National Grid	$ 60,246
#8830-2-0000-40-4210-4500 Forfeited Discounts Electric Liberty	$ 57,006
Total Forfeited Discounts per the General Ledger	**$ 117,251**

Detailed general ledger entries in the National Grid account reflect one monthly entry only. Liberty entries in the second half of the year are also one per month, with little description of what the activity represents. One credit entry in July in the amount of $(8,902) referenced that it was a CSS miscellaneous revenue related to water heaters and late payments. It appears that that entry would more appropriately be recorded in the Misc. Serv Rev account #8830-2-0000-40-4210-4510, discussed below. There is no income statement or filing impact. Audit requested clarification of what the Forfeited Discount Account represents. The Company provided *the FERC definition of the Forfeited Discount Account No 450 which is "This account shall include the amount of discounts forfeited or additional charged imposed because of the failure of customers to pay their electric bills on or before a specified date.*

The FERC definition does not provide an explanation of the specific Liberty activity, which Audit noted to be six debits which sum to $4,479 and six credits which sum to $61,484. The line descriptions "other CSS revenue entry" entry caused the clarification question.

<u>Miscellaneous Service Revenue per Filing</u> **$ 235,743**

#451000 Miscellaneous Service Revenue National Grid	$ 137,522
#8830-2-0000-40-4210-4510 Misc Serv Rev Liberty	$ 98,221
Total Miscellaneous Service Revenue per the General Ledger	**$ 235,743**

<u>Rent from Electric Property per Filing</u> **$ 283,642**

#454000 Rent from Electric Property National Grid	$ 141,917
#8830-2-0000-40-4210-4540 Rental Income Liberty	$ 47,497
#8830-2-0000-40-4310-4540 Rental Income Intercompany Liberty	$ 94,228
Total Rent from Electric Property per the General Ledger	**$ 283,642**

<u>Other Revenue per the Filing</u> **$ 1,033,380**

#451010 Open Access DSM National Grid	$ 10,507
#8830-2-0000-40-4210-4511 Misc Open Access DSM Liberty	$ 56,994
Total Miscellaneous Open Access DSM per the General Ledger	$ 67,500

#456005 Open Access Rev Access Charge National Grid	$ 366,266
#8830-2-0000-40-4210-4562 Other Open Access Liberty	$ 422,959
Total Other Open Access per the General Ledger	$ 789,225

#456040 Electric Revenue Miscellaneous National Grid	$	138,561
#456505 KS-I/C Rev-Ravenswood Inc 441 National Grid	$	1,130
#457041 Rev Asc Co Granite St National Grid	$	-0-
#8830-2-0000-40-4210-4560 Other Electric Revenue Liberty	$	36,965
Total Miscellaneous Revenue per the General Ledger	$	176,655
Total Other Revenue per the General Ledger	**$**	**1,033,380**

Audit noted a reduction on the filing Schedule RR-3 to Miscellaneous Service Revenue in the amount of $(67,543), associated with FERC account #451. Audit concurs with the amount, as it appears to be the Demand Side Management (DSM) related revenue. Specifically, the Electric CORE dockets allow for Commission approved shareholder incentives based on a variety of factors. The revenue noted above represents that shareholder incentive. Refer to the Annual Reconciliation portion of this docket for additional information.

Open Access Revenue Charges for both Companies were reviewed to the detailed general ledger. Monthly CSS revenue postings were noted for Water Heating, Time of Use, Regular, Low Income, Private Property Lighting, Ltd Elec Living, Ltd Commercial Space, General Service Time of Use, General Service Small, General Service Demand, and a monthly recording of the over/under collection of Access Costs.

The Miscellaneous Electric Revenue noted in account #456040 is primarily related to Contributions in Aid of Construction, as the activity descriptions reflect billing for Construction Reimbursement and costs associated with Supervision and Administration.

Grid account #456505, $1,130 appears to be a **Non-recurring** revenue source. The only amount noted in the six months' of activity was one entry, indicating construction reimbursement. The account title is KeySpan Inter-Company Revenue, Ravenswood Inc., 441. KeySpan is a legacy name from when the KeySpan corporation owned Granite State Electric.

Other Electric Revenue in account #8830-2-0000-40-4210-4560 represents collection of Temporary Service flat fee assessments of $240 per occurrence, and income earned on CIAC related jobs. Audit noted eighteen instances of customers assessed $240, for a total of $4,320. The Tariff indicates the following for Temporary Service:

> *Temporary service is service which will not continue for a sufficient period to yield the Company adequate revenue at its regular rates to justify the expenditures necessary to provide such service. It shall be the Company's policy to require Customers seeking Temporary Service to pay the full amount of the estimated cost of installing and removing the requested connection, less estimated salvage value, in advance of the installation by the Company of the connection. In additional, the Customer will be required to make payments for electricity at the regular rates. The estimated cost and salvage shall be determined solely by the Company which shall exercise good faith in making such determinations.*

Audit requested clarification of the flat $240 fee and was told that the amount has been used for several years. The basis of the calculation was a determination of the cost for a simple temporary service, including a meter and service drop. The Company also indicated that "*due to* *its modest amount and in an attempt to be consistent we book these to Other Electric Revenue rather than trying to determine what expense account should be credited in each situation. The offsetting account is cash…"* The Company indicated that the Temporary Service outlined in the tariff has been in place since 1998.

Audit acknowledges that the fee may not accurately reflect current costs to install a temporary service. However, the flat fee does not comply with the terms of the tariff. In addition, due to the posting of the fee to Revenue, the expense accounts impacted are overstated. **Audit Issue #21**

The remaining balance of the activity in the Other Electric Revenue account is comprised of Contributions in Aid of Construction, in the amount of $32,645. Audit requested clarification of an entry in the amount of $7,849. The Company responded indicating that the figure is part of an overall CIAC job of $21,032, and that the $7,849 represented "earned income" on the job. **Audit Issue #22**

Entries relating to the total were:

Debit Cash 8830-2-0000-10-1020-1312	$21,032	
Credit Unapplied Payments 8830-2-0000-20-2111-2420		$21,032
Debit Unapplied Payments 8830-2-0000-20-2111-2420	$21,032	
Credit CWIP 8830-2-0000-10-1618-1071		$ 8,474
Credit RWIP 8830-2-0000-10-1655-1081		$ 4,709
Credit Other Income 8830-2-0000-40-4210-4560		$ 7,849

<u>Tariff Test</u>

Audit conducted a review of eleven customer invoices, originally selected by KPMG for payment follow-through. Audit reviewed the invoices for compliance with the tariff. The selection included customer invoices for the period October 2012 through the end of the year. The rate class breakdown was:

G1- three customers, G2- one customer, G3- one customer, D – five customers, T –one customer

Audit reviewed each invoice for accuracy of the charges, both for compliance with the tariff and for mathematical calculation.

One of the five rate class D customers had the customer charge of $0.0165 assessed on the first 208 kWh used in the period, rather than on the first 250 kWh per the tariff. The remaining kWh were assessed at the tariffed rate of $0.04295. The customer was overcharged by $1.10 and represents an error rate of 20% of the selection. Audit requested clarification of the 208 vs. 250 and was told by a representative of National Grid that "*the bill period is considered a short primary in New England. A normal primary in NE is 26-36 days. If you take the consumption for the first step, 250 and divide it by 30 (using 30 days as the standard) then multiply it by 25 days it comes out to be the 208*". **Audit Issue #23**

Each of the G1 customers, as well as the G2 customer were reviewed to prior invoices as well, to ensure compliance with tariff provisions outlined on page 47. One customer had the customer charge and distribution charge pro-rated due to a shortened timeframe from one meter read to the next. (refer to Audit Issue #23) One new customer was required to place a deposit for service. A request for the manner in which the deposit was calculated was made. The Company provided a screenshot from CSS of a calculated average bill (of $1,718). The Company indicated that the deposit is based on an historical average of two months' bills, which equates to $3,436. The amount of the deposit requested was $2,930, or 85% of the CSS calculation.

The invoices provided for the G3 and T rate customers were also reviewed for tariff compliance without exception.

Accounts Receivable

The filing schedule RR-4 reflects a total accounts receivable balance of $10,194,712. Of the seventeen accounts which comprise the total, the following relate to Customer billings and adjustments:

Accounts Receivable				Description per Liberty
8830-2-0000-10-1101-1425	CSS	$	8,001,801	CSS Customer Receivables
8830-2-0000-10-1101-1426	NSF Chargeback	$	(36,107)	CSS Chargeback Insufficient Funds
8830-2-0000-10-1102-1440	Accum. Prov. Uncollectable	$	334,992	Actual Customer Charge-offs
8830-2-0000-10-1102-1442	Bad Debt Exp -Misc. Billing	$	87,919	Actual Customer Charge-offs
8830-2-0000-10-1102-1443	Reserve for Bad Debt Accrual	$	(808,786)	Reserve for overall bad debt

Audit was provided with the Accounts Receivable reconciliation compiled by National Grid (monthly) for Liberty. The reconciliation for 12/31/2012 reflects the following:

Account #142000 general ledger	$8,285,411
Account #142003 general ledger	$ 466,331
Total general ledger	**$8,751,741**

The general ledger accounts on the reconciliation are the National Grid numbers. The noted general ledger total has been out of balance with the CSS detail since June 2012, in the amount of $449. That variance is considered immaterial. Audit requested clarification from Liberty of their accounts to which the reconciliation is reflective, and was told that the only account is #8830-2-0000-10-1101-1425, CSS, in the amount of **$8,001,801.** The Liberty year-end figure to which the CSS should be reconciled, is $749,940 less than the reconciliation provided. Audit requested clarification of such a large variance and was told that "an analysis is performed monthly to tie the CSS and Great Plains Accounts Receivable balances. Grid also had a timing variance related to cash received after CSS closed…we want to eliminate the timing variance since we are moving to the Cogsdale system from CSS next year." **Audit Issue #24**

The CSS Accounts Receivable summary which identified the aging of receivables, reflected:

Age	$ Amount	# of Customers
Current	$6,553,932	128,094
30 Day Arrears	$ 984,101	4,566
60 Day Arrears	$ 218,783	1,275
90 Day Arrears	$ 158,416	637
120 Day Arrears	$1,019,175	1,498
Excess Credit	$ (268,925)	4,053
	$8,665,482	

Pivot table (general ledger) detail provided to support the receivable balance reflected 61,100 lines of data in one sheet and 5,163 lines of data in an excess credit tab. The totals reflect current receivables of $6,568,671 and past due receivables of $2,373,470. The excess credit tab reflected $(272,744). The combined receivable balance was **$8,669,397.**

Customer Deposits

The National Grid account used to reflect total Customer Deposits is #235000 and at June 30, 2012 reflected $658,458. At year end, the Liberty general ledger #8830-2-0000-20-2113-2350 reflected $667,231. The deposit listing at year end provided by the Company reflects a total of $660,664, a difference of $6,567. Audit requested clarification and was provided with a CSS Customer Deposit reconciliation (completed by National Grid monthly). The reconciliation reflected the following:

CSS Beginning Balance	($665,247)
CSS Activity	($ 1,984)
Adjusted CSS Total	($667,231)
Deposits Held	($660,664)
Deposits Outstanding	($6,567)
	($667,231)

The total adjusted CSS agrees with the general ledger without exception.

Interest on Customer Deposits was identified in the filing section Puc 1604.04 (a)(1)a.b. Attachment 1 Page 5 of 12, to be **$36,499**. Audit requested the general ledger accounts used to reflect Customer Deposit interest and was provided with:

National Grid account #431000	$10,704
Liberty account #8830-2-0000-2116-2372	$22,149
Total general ledger	**$32,853**

The combined National Grid and Liberty general ledger accounts do not agree with the filing for interest on Customer Deposits. The general ledger is less than the filing by $3,646.

Audit requested a listing of the dates the individual deposits were taken, to conduct a compliance review in accordance with Puc 1203.03. Company requested a copy of the 1200 rules, and Audit directed them to the PUC website.

After requests for the deposit listing complete with deposit amount, date taken, and related calculated interest, Audit spot-tested several calculations of interest for compliance with the 1203.03 Deposit Rule. There were no exceptions.

The total interest however, on the deposit list that was 1,949 lines long, was **$32,184** which does not agree with the Filing nor with the general ledger. **Audit Issue #25**

<u>Other Miscellaneous Revenue</u>

Because the FERC Form I was not available to review, and was not part of the rate filing for the test year, Audit determined that $354,545 miscellaneous interest and other revenue was not included in the rate filing. Specifically:

<u>National Grid:</u>	
#419010 Interest Income	$(109,363)
#419101 Interest-Rabbi Trust	$ (15,737)
#419103 Interest-Temporary Cash	$ (2,235)
#419106 Other Interest-Refund	$ 94
#419110 Interest and Dividend	$ (951)
$419111Interest-Money Pool	$ (3,545)
#419202 Dividend Rabbi Trust	$ (5,206)
#419100 Allowance Other Funds Used during Constcn	<u>$ (85,960)</u>
	$(222,903)
<u>Liberty:</u>	
#8830-2-0000-40-4410-4191 Interest-Other	$ 15
#8830-2-0000-40-4410-4192 Interest and Dividend	$ (62,076)
#8830-2-0000-40-4410-4195 Interest Temporary Cash	$ (1,664)
#8830-2-0000-40-4420-4190 Interest Income	$ (32,003)
#8830-2-0000-40-4700-4191 Allowance Other Funds Used during Constcn	<u>$ (35,003)</u>
	$(131,642)

Audit Issue #26

<u>8830-2-0000-30-3800-2190 – Accumulated Other Comprehensive Income $1,232,012</u>

Accumulated Other Comprehensive Income contains a debit balance of $1,232,012. The only entries in this account were the closing entries, therefore this account was not included in the filing. **Audit Issue #35**

O&M EXPENSES $71,220,691 per Filing Schedule PUC 1604.4

The filing PUC 1604.4 (a)(1)a.b. Attachment 1 Page 3 and 4 of 12 reflect the total O&M Expenses of $77,220,691. Specifically:

Purchased Power $36,839,918

Company	Account & Description	Amount
NGrid	555010 – Purchase Power-Variable	$ (88,835)
NGrid	555050 – Purchased Power-Fixed & SO	$ 19,963,441
NGrid	555112 – PP-NEP-Access Charge-Elim	$ 366,266
LU/GSE	8830-2-0000-52-5455-5551 – Purchase Power-Variable	$ 1,234,760
LU/GSE	8830-2-0000-52-5455-5552 – Purchased Power-Fixed & SO	$ 14,941,594
LU/GSE	8830-2-0000-52-5455-5553 – PP-NEP-Access Charge-Elim	$ 422,692
		$ 36,839,918

Audit reviewed the activity in each account and noted that the activity all pertained to the estimation of purchased power, the true-up of purchased power and the payment for purchased power.

Transmission Expenses-O&M $15,296,399

Transmission-Open Access	$ 15,301,182
Transmission-Other	$ (4,783)
	$ 15,296,399

General Ledger Accounts for Transmission-Open Access

Company	Account & Description	Amount
NGrid	561400 – Schd, Sys Cntrl & Dispatch Srv	$ 216,144
NGrid	565000 – Trans Oper-Wheeling	$ 4,827,604
NGrid	565035 – Elec Rev Wheeling-Elim	$ 2,754,856
NGrid	565037 – Sale for Resale-Tran CR-Elim	$ (12,493)
LU/GSE	8830-2-0000-51-5440-5614 – Sched, sys control & dispatch serv exp	271,672
LU/GSE	8830-2-0000-51-5441-5650 – Transmission of electricity by others	6,425,028
LU/GSE	8830-2-0000-51-5442-5651 – Elec Rev Wheeling-Elim	$ 1,144,939
		$ 15,627,750
12/31/12 Accrual Entry see **Audit Issue #20**		$ (326,568)
Filing Amount		$ 15,301,182

Audit reviewed all of the activity in the accounts and the majority of the entries were for payments, accruals, and estimations. National Grid accounts 565035 and 565037 contained intercompany transactions between NEP (New England Power) and GSE.

General Ledger Accounts for Transmission-Other

Company	Account & Description	Amount	
NGrid	562000 – Trans Oper-Substations	$	12,211
NGrid	566000 – Trans Oper-Misc Expenses	$	9,567
NGrid	568000 – Trans Maint-Supervision & Eng	$	1,041
NGrid	570000 – Trans Maint-Substations	$	165
NGrid	570010 – Trans Maint-Substations-Trouble	$	801
NGrid	571000 – Trans Maint-Overhead Lines	$	6,985
NGrid	571010 – Trans Maint-Switch-Unplanned	$	2,273
LU/GSE	8830-2-0000-51-5010-5630 – Overhead Lines-Labor	$	2,701
LU/GSE	8830-2-0000-51-5010-5660 – Misc Transmission Expenses-Labor		(610)
LU/GSE	8830-2-0000-51-5410-5630 – Overhead Lines	$	303
LU/GSE	8830-2-0000-51-5415-5640 – Underground Lines	$	4,392
LU/GSE	8830-2-0000-51-5443-5660 – Misc Transmission Expenses	$	(44,612)
		$	(4,783)

The National Grid accounts contained a variety of different types of entries such as payroll, bonus accruals, service company operating costs, and associated company billing. Account #566000 reflected accruals for ISO invoices. In the Granite State accounts, there were only a total of seventeen entries in all five accounts. There were entries for payroll, accruals, and to reclass the GSE fleet.

Distribution O&M $5,319,666

Supervision & Eng	$	151,349
Load Dispatching	$	807,602
Substations	$	214,244
Overhead Lines	$	(291,326)
Underground Lines	$	89,470
Outdoor Lighting	$	14,049
Electric Meters	$	135,685
Customer Installation	$	64,515
Misc Expenses	$	575,211
Rents	$	2,161
Supervision & Eng	$	64
Structures	$	5,882
Substations	$	53,340
Substations-Trouble	$	12,712
Overhead Lines	$	1,805,277
OH Lines-Trouble	$	433,509
OH Lines-Veg Mgmt	$	1,072,504
Underground Lines	$	55,493
Line Transformers	$	39,761
Outdoor Lighting	$	75,627
Misc Distr Plant	$	2,537
	$	5,319,666

Audit reviewed the general ledgers for National Grid and Granite State "500" and "900" series accounts. From the review, Audit selected a random sample of journal entries and requested supporting documentation. There were a total of 164 selections for GSE and 71 for National Grid. The request was made on 6/28/13 and the majority of the Liberty invoices were received on 7/8/13. The company responded to all questions and requests regarding these selections.

Audit was told that National Grid was having issues pulling the documentation because they could not tie the journal entries back to the invoices. Audit received an email chain on 7/25/13 which shows the request for the invoices going to National Grid on 7/22/13. The National Grid invoices were couriered to Audit on 7/25/13.

All of the National Grid accounts contained the same variety of activity. The associated entries included accounts payable, bonus accruals, cancelled work order clearing entries, payroll, expense accruals, and reclasses. There was a significant amount of entries with the description of "Distribution Companies", "Elec Dist-Keyspan & NGrid", "Engineering O&M", etc. Audit questioned some of Grid's generic descriptions and received the following, " *the descriptions appear to relate to allocation journal entries that are used by National Grid. Grid's centralized support services (Accounting, Legal, Regulatory, Engineering, HR, IT, Environmental, Emergency Planning, etc) are charged to companies within Grid that use those services".* There was also a journal entry called "CR JNLS THAT DO NOT TAKE ALLOC" that Audit questioned. Liberty provided an explanation (on August 26, 2013) that the entry *is from the National Grid Powerplant System. Powerplant is a sub-system that manages National Grid's fixed asset ledger. The entries from the Powerplant system are not allocations. Allocated costs are generally O&M costs related to centralized support services provided by groups like Accounting, Finance, IT, Legal, and HR.*

Three large invoices were selected from the Granite State check history. The invoices were for MacQuarie Energy LLC, ISO New England Inc, and Nextera Energy Power Marketing LLC. These invoices were chosen due to the fact that the payment reference was "Gas Purchase". The invoices were reviewed to ensure the charges were not related to EnergyNorth. After a review of the invoices it was determined they were in fact charges for Granite State Electric.

National Grid

Only a total of 13 invoices out of 71 were able to be verified as accurate. 16 of the general ledger selections were for accruals. Audit made their selections based on journal IDs beginning "AP" as they were informed there were all payments. Granite State confirmed the 16 selections were actual accruals. Audit requested GSE to provide the invoice and pay date associated with the accrual. This request went issued 7/26/2013 as the invoices were only received by Audit at 3:00PM on 7/25/2013. National Grid was looking into this request but Audit has received limited supporting documentation to date.

The remaining 42 invoice could not be verified as the invoice amount did not match the amount paid. Audit requested the cost allocation manual for National Grid to verify the amounts were allocated correctly. GSE noted that a particular Dig Safe invoice was not allocated but split by company. Audit followed up by asking if a certain percentage is always used or if the invoices are split on a case by case basis. Audit has not received a response to this question, and was informed on 8/26/2013 that the Company has requested the information from National Grid and has provided all of the invoices it has received from National Grid to Audit. **Audit Issue#27**

General Ledger Accounts for Supervision & Eng

Company	Account & Description	Amount
NGrid	580000 – Dist Oper-Supervision & Eng	$ 1,418
LU/GSE	8830-2-0000-51-5010-5800 – Operation supervision and eng-Labor	115,837
LU/GSE	8830-2-0000-51-5435-5800 – Operation Supervision & Engineering	34,094
		$ 151,349

General Ledger Account for Load Dispatching

Company	Account & Description	Amount
NGrid	581000 – Dist Oper-Load Dispatching	$ 27,727
LU/GSE	8830-2-0000-51-5010-5810 – Load Dispatching-Labor	$ 56,253
LU/GSE	8830-2-0000-51-5400-5810 – Load Dispatching	$ 723,622
		$ 807,602

General Ledger Accounts for Substations

Company	Account & Description	Amount
NGrid	582000 – Dist Oper-Substations	$ 213,420
LU/GSE	8830-2-0000-51-5405-5820 – Station expenses	$ 824
		$ 214,244

General Ledger for Overhead Lines

Company	Account & Description	Amount
NGrid	583000 – Dist Oper-Overhead Lines	$ 196,541
LU/GSE	8830-2-0000-51-5010-5830 – Overhead line expenses-Labor	$ (702,475)
LU/GSE	8830-2-0000-51-5410-5830 – Overhead line expenses	$ 214,608
		$ (291,326)

Account 8830-2-0000-51-5410-5830

Audited requested more detail regarding a Travel and Expense Reimbursement for $52,417.34. The detail came back as an American Express credit card statement. On the statement was a credit of $188.56. The total new charges were $52,417.34 less the credit made the total balance due $52,228.78. Reimbursement was submitted for the total new charges and payment was made based on that amount. Payment was split between the above mentions overhead line account ($1,124.88) and account 8830-2-0000-10-1930-1825, Storm Costs ($51, 292.46). Audit questioned why reimbursement was made for the new charges total and not the balance due. GSE replied that this was an overpayment and unfortunately the error was not caught. GSE also noted they have taken steps to strengthen controls. **Audit Issue #28**

General Ledger Accounts for Underground Lines

Company	Account & Description	Amount
NGrid	584000 – Dist Oper-Underground Lines	$ 55,920
LU/GSE	8830-2-0000-51-5010-5840 – Underground line expenses-Labor	3,492
LU/GSE	8830-2-0000-51-5415-5840 – Underground line expenses	$ 30,058
		$ 89,470

General Ledger Accounts for Outdoor Lighting

Company	Account & Description	Amount
NGrid	585000 – Dist Oper-Outdoor Lighting	$ 14,049

General Ledger Accounts for Electric Meters

Company	Account & Description	Amount
NGrid	586000 – Dist Oper-Electric Meters	$ 130,147
LU/GSE	8830-2-0000-51-5425-5860 – Meter Expenses	$ 5,538
		$ 135,685

General Ledger Accounts for Customer Installation

Company	Account & Description	Amount
NGrid	587000 – Dist Oper-Customer Installation	$ 64,515

General Ledger Accounts for Misc Expenses

Company	Account & Description	Amount
NGrid	588000 – Dist Oper-Misc Expenses	$ 558,631
LU/GSE	8830-2-0000-51-5010-5880 – Misc distribution expenses labor	$ 10,233
LU/GSE	8830-2-0000-51-5435-5880 – Misc distribution expenses	$ 6,347
		$ 575,211

General Ledger Accounts for Rents

Company	Account & Description	Amount
NGrid	589000 – Dist Oper-Rents	$ 560
NGrid	589001 – Rents-Building-Dist-Elim	$ 1,601
		$ 2,161

General Ledger Accounts for Supervision & Eng

Company	Account & Description	Amount
NGrid	590000 – Dist Maint-Supervision & Eng	$ 64

General Ledger Accounts for Structures

Company	Account & Description	Amount
NGrid	591000 – Dist Maint-Structures	$ 5,882

General Ledger Accounts for Substations

Company	Account & Description	Amount
NGrid	592000 – Dist Maint-Substations	$ 46,426
LU/GSE	8830-2-0000-56-5210-5920 – Maint of station equipment	$ 6,914
		$ 53,340

General Ledger Accounts for Substations-Trouble

Company	Account & Description	Amount
NGrid	592010 – Dist Maint-Substations-Trouble	$ 12,712

General Ledger for Overhead Lines

Company	Account & Description	Amount
NGrid	593000 – Dist Maint-Overhead Lines	$ 1,096,988
LU/GSE	8830-2-0000-56-5010-5930 – Maint of overhead lines labor	$ 513,109
LU/GSE	8830-2-0000-56-5210-5930 – Maint of overhead lines	$ 168,443
LU/GSE	8830-2-0000-56-5010-5932 – Maint of overhead lines-Veg Mgmt-Labor	26,737
		$ 1,805,277

Account 8830-2-0000-56-5010-5932 was reviewed in the Vegetation Management section of this report.

Account 8830-2-0000-56-5210-5930

Two Lucas Tree Expert invoices in the amounts of $30,853 and $5,192 were questioned by Audit regarding why they were not paid out of the Vegetation Management fund. Granite State noted that *"Vegetation Management costs should be coded to 5210-5932 and going forward we'll make sure it does. But at the FERC level it rolls up to the same account. Also the primary way veg management costs are tracked in the REP/VMP filing is by feeder circuit and those are tracked by job."* **Audit Issue #29**

General Ledger Accounts for OH Lines – Trouble

Company	Account & Description	Amount
NGrid	593010 – Dist Maint-OH Lines-Trouble	$ 13,937
LU/GSE	8830-2-0000-56-5210-5931 – Maint of overhead lines-Trouble	$ 419,572
		$ 433,509

General Ledger Accounts for OH Lines-Veg Mgmt

Company	Account & Description	Amount
NGrid	593020 – Dist Maint-OH Lines-Veg Mgmt	$ 701,211
LU/GSE	8830-2-0000-56-5210-5932 – Maint of overhead lines-Veg Mgmt	371,293
		$ 1,072,504

Accounts 593020 and 8830-2-0000-56-5210-5932 were reviewed in the Vegetation Management section of this report.

General Ledger Accounts for Underground Lines

Company	Account & Description	Amount
NGrid	594000 – Dist Maint-Underground Lines	$ 52,973
LU/GSE	8830-2-0000-56-5210-5940 – Maint of underground lines	$ 2,520
		$ 55,493

Activity within account 8830-2-0000-56-5210-5940 included $13,734 debits and $11,214 credits for a net $2,520. Audit determined that Casella invoice for $3,200 for Lebanon Street Reconstruction is non-recurring. **Non-Recurring**

General Ledger Accounts for Line Transformers

Company	Account & Description	Amount
NGrid	595000 – Dist Maint-Line Transformers	$ 39,761

General Ledger Accounts for Outdoor Lighting

Company	Account & Description	Amount
NGrid	596000 – Dist Maint-Outdoor Lighting	$ 75,627

General Ledger Accounts for Misc Distr Plant

Company	Account & Description	Amount
NGrid	597000 – Dist Maint – Electric Meters	$ 2,537

Customer Accounting $1,322,827

Supervision	$ 9,724
Meter Readings	$ 529,994
Customer Records & Collection	$ 448,716
Uncollectible Accounts	$ 326,926
Uncollectible Accounts-Commodity	$ 0
Misc Expenses	$ 7,467
	$ 1,322,827

General Ledger Accounts for Supervision

Company	Account & Description	Amount
NGrid	901000 – Cust Acct-Supervision	$ 9,724

General Ledger Accounts for Meter Readings

Company	Account & Description	Amount
NGrid	902000 – Cust Acct-Meter Reading Exp	$ 102,172
LU/GSE	8830-2-0000-69-5010-9020 – Meter reading expense-Labor	$ 824
LU/GSE	8830-2-0000-69-5250-9020 – Meter reading expenses	$ 426,998
		$ 529,994

General Ledger Accounts or Customer Records & Collection

Company	Account & Description	Amount
NGrid	903000 – Cust Records & Collection	$ 447,898
LU/GSE	8830-2-0000-69-5010-9030 – Cust records & collection expenses-labor	705
LU/GSE	8830-2-0000-69-5250-9030 – Cust records & collection expenses	113
		$ 448,716

General Ledger Accounts for Uncollectible Accounts

Company	Account & Description	Amount
NGrid	904000 – Uncollectible Accounts	$ 12,049
LU/GSE	8830-3-0000-80-8660-9040 – Uncollectible Accounts	$ 314,877
		$ 326,926

General Ledger Accounts for Misc Expenses

Company	Account & Description	Amount
NGrid	905000 – Cust Account-Misc Expenses	$ 7,467

Customer Service & Information $174,901

Cust Service-Supervision	$ 37
Cust Assistance Expenses	$ 84,858
Cust Service-Misc Expenses	$ 90,006
	$ 174,901

General Ledger for Accounts Cust Service-Supervision

Company	Account & Description	Amount
NGrid	907000 – Cust Service-Supervision	$ 37

General Ledger for Accounts Cust Assistance Expenses

Company	Account & Description	Amount
NGrid	908000 – Cust Assistance Expenses	$ 31,585
LU/GSE	8830-2-0000-69-5010-9080 – Customer assistance expenses-labor	13,128
LU/GSE	8830-2-0000-69-5390-9080 – Customer assistance expenses	$ 40,145
		$ 84,858

General Ledger for Accounts Cust Service-Mis Expenses

Company	Account & Description	Amount
NGrid	909000 – Info & Instruct Advertising Exp	$ 13,310
NGrid	910000 – Cust Service-Misc Expenses	$ 22,950
NGrid	911000 – Sales Expense-Supervision	$ 59
NGrid	912000 – Demo & Selling Expenses	$ 41,124
NGrid	916000 – Sales-Misc Expenses	$ 52
LU/GSE	8830-2-0000-69-5390-9100 – Misc cust service & informational exp	12,511
		$ 90,006

Administrative & General $12,266,980

A&G-Salaries	$	2,196,920
A&G-Office Supplies	$	1,136,866
A&G-Outside Services Employed	$	3,595,737
Property Insurance	$	2,145,707
Injuries & Damages Insurance	$	427,811
Employee Pensions & Benefits	$	2,017,840
Regulatory Comm Expenses	$	535,251
A&G-Institutional/Goodwill Adv	$	18,211
A&G-Misc Expenses	$	83,566
A&G-Rents	$	94,492
A&G Maint-General Plant-Elec	$	14,578
	$	12,266,980

General Ledger Accounts for A&G-Salaries

Company	Account & Description	Amount	
NGrid	920000 – A&G Salaries	$	651,152
LU/GSE	8830-2-0000-69-5010-9220 – Admin exp transferred-CR	$	(145,364)
LU/GSE	8830-2-9800-69-5010-9200 – A&G salaries-IT	$	34,966
LU/GSE	8830-2-9810-69-5010-9200 – A&G salaries-HR	$	108,892
LU/GSE	8830-2-9815-69-5010-9200 – A&G salaries-Environmental/H&S		74,878
LU/GSE	8830-2-9820-69-5010-9200 – A&G salaries-Finance and Admin		109,742
LU/GSE	8830-2-9830-69-5010-9200 – A&G salaries-Regulatory	$	151,598
LU/GSE	8830-2-9835-69-5010-9200 – A&G salaries-Energy Procurement		58,945
LU/GSE	8830-2-9840-69-5010-9200 – A&G salaries-Procurement/SC	$	65,032
LU/GSE	8830-2-9850-69-5010-9200 – A&G salaries-Operations	$	657,062
LU/GSE	8830-2-9855-69-5010-9200 – A&G salaries-Legal	$	31,735
LU/GSE	8830-2-9860-69-5010-9200 – A&G salaries-Executive	$	98,671
LU/GSE	8830-2-9865-69-5010-9200 – A&G salaries-Customer services	$	241,383
LU/GSE	8830-2-9800-69-5010-9201 – A&G salaries-IT LU headoffice	$	6,403
LU/GSE	8830-2-9810-69-5010-9201 – A&G salaries-HR LU headoffice	$	2,869
LU/GSE	8830-2-9815-69-5010-9201 – A&G salaries-EHS&S LU Headoffice		1,876
LU/GSE	8830-2-9820-69-5010-9201 – A&G salaries-Fin&Adm LU Headoffice		19,096
LU/GSE	8830-2-9830-69-5010-9201 – A&G salaries-Regulatory LU Headoffice		15,271
LU/GSE	8830-2-9850-69-5010-9201 – A&G salaries-Operations LU Headoffice		12,520
LU/GSE	8830-2-9810-69-5130-9216 – Meals & Entertain HR LU HO	$	193
			2,196,920

General Ledger Accounts for A&G-Office Supplies

Company	Account & Description	Amount
NGrid	921000 – A&G-Office Supplies	$ 572,017
NGrid	921003 – A&G Srv Co Deprec Exp PAM	$ 10,726
NGrid	921004 – A&G Srv Co Amort Ltd Elec Plnt	$ 131,594
NGrid	921005 – A&G Srv Co Deprec Exp LAB	$ 2,273
NGrid	921007 – A&G Srv Co AFUDC Credit	$ (27,454)
LU/GSE	8830-2-0000-69-5130-9210 – Office supplies and expenses	$ 15,107
LU/GSE	8830-2-9800-69-5130-9210 – Office Supplies-IT	$ 3,034
LU/GSE	8830-2-9810-69-5130-9210 – Office Supplies-HR	$ 17,776
LU/GSE	8830-2-9815-69-5130-9210 – Office Supplies-Environmental/H&S	102,156
LU/GSE	8830-2-9820-69-5130-9210 – Office Supplies-Finance and Admin	17,839
LU/GSE	8830-2-9830-69-5130-9210 – Office Supplies-Regulatory	$ 39,731
LU/GSE	8830-2-9835-69-5130-9210 – Office Supplies-Energy Procurement	4,278
LU/GSE	8830-2-9840-69-5130-9210 – Office Supplies-Procurement/SC	$ 8,733
LU/GSE	8830-2-9850-69-5130-9210 – Office Supplies-Operations	$ 107,352
LU/GSE	8830-2-9855-69-5130-9210 – Office Supplies-Legal	$ 59,775
LU/GSE	8830-2-9865-69-5130-9210 – Office Supplies-Customer Service	61,827
LU/GSE	8830-2-9800-69-5130-9215 – Office Supplies&exp IT LU Headoffice	4,569
LU/GSE	8830-2-9810-69-5130-9215 – Office supplies&exp HR LU Headoffice	1,058
LU/GSE	8830-2-9820-69-5130-9215 – Office supplies&exp Fin&Adm LU HO	4,193
LU/GSE	8830-2-9850-69-5130-9215 – Office supplies&exp Operations LU HO	276
LU/GSE	8830-2-9820-69-5130-9216 – Meals & Entertain HR LU HO	$ 6
		$ 1,136,866

Accounts 921003, 921004, 921005, and 921007 were reviewed in the Plant Section.

Account 8830-2-0000-69-5130-9210

Audit questioned an invoice from the Greater Concord Chamber of Commerce in the amount of $997. Audit noticed that it was coded to 8840 (EnergyNorth). Audit questioned whether in fact this was an invoice for EnergyNorth as no company was mentioned. GSE acknowledged this invoice was for EnergyNorth and should not have been charged to GSE. **Audit Issue #30**

Salem Press invoice for $2,874 for Orientation and Employee Manuals is determined by Audit to be an expense that would not be a regular occurrence. The invoice was split 70/30, so GES's portion was $862.20. This expense, for the test year, should be considered non-recurring. **Non-recurring**

Account 8830-2-9815-69-5010-9201

Audit requested an explanation for the allocation used on intercompany invoice JC5037 in the amount of $10,097.06. GSE noted that the rate case expense was charged 100% to GSE and the remainder of the invoice was split 70/30 and GSE's 30% was split between two accounts. The total amount charged to GSE was $3,207.36. Audit also noted that the rate case portion of this invoice ($254.63) should be deferred. **Audit Issue #31**

<u>Account 8830-2-9815-69-5130-9210</u>

Audit questioned an invoice for Hayner/Swanson, Inc in the amount of $1,376. The allocation of this invoice was 50 % EnergyNorth, 40% Granite State and 10% ATMOS. According to GSE, *"Atmos was the former owner of companies that Liberty Canada purchased in Midstates and Georgia"*.

Audit questioned GSE as to why the invoice was not split using the 70/30 noted in the Cost Allocation Manual. Granite State noted *"This was an invoice for a feasibility study and site inspection to build out a facility in Manchester (an existing gas facility) to house Granite State employees. The person who approved and coded the invoice considered it appropriate to increase the percentage related to Granite State"*. Audit also determined that Granite State's 40%, $550.40, is non-recurring as the study and site inspection are a one-time charge. **Non-recurring**

Audit determined there was an error on the UGL Services Unicco Operations invoice. The invoice total was $4,442.95 and it was for janitorial services in Manchester, Nashua, Lebanon, Charlestown, Salem and Tilton. This invoice was allocated based on the locations and not the 70/30 percentage. The charges allocated to GSE should have been $2,097.58 for Lebanon, Charlestown and Salem. GSE was erroneously allocated $2,088.19. The expense should be increased $9.39. **Audit Issue #32**

A Councilman Electric, Inc. invoice in the amount of $4,799 was questioned as to why it was charged 100% and not allocated using the 70/30. GSE stated this invoice is for 9 Lowell Road which is 100% electric. Audit also questioned why this invoice for the wiring of new office cubicles was not capitalized. Granite State noted it should be and was missed by them. **Audit Issue #33**

<u>Account 8830-2-9830-69-5130-9210</u>

Audit determined an invoice for The Governor's Inauguration should post below the line. The invoice totaled $2,500 and was split 50/50 between GSE and EnergyNorth. $1,250 is considered ineligible for consideration in the rate case. **Audit Issue #34**

A Travel and Expense Reimbursement for $1,495.75 was questioned by Audit. The charge company noted on the reimbursement stated "8840-EN". GSE acknowledged that this invoice should have been charged to EnergyNorth and was charged to Granite State in error. **Audit Issue #30**

Sussex Economic Advisors, LLC's invoice in the amount of $8,428.82 was determined to be non-recurring. The invoice is for time charges and expenses, which is not a fixed occurrence. **Non-recurring**

Audit was unable to determine the allocation on an invoice from World-Tech for $1,810.00. Granite State explained the following, *"Per our regulatory department on an annualized basis there are approximately the same number of compliance filings for electric and* *gas. Therefore, this invoice for the Bates stamp software required for filings with the PUC was charged equally to the two companies"*. The $1,810 was split between the four Algonquin companies at 25% each. From there, Liberty NH split their 25% ($425.50) 50/50, resulting in the GSE charge of $226.25. Using the proper 70/30 allocation GSE would have been charged $127.65 resulting in an overstatement of $98.60. **Audit Issue #32**

Account 8830-2-9855-69-5130-9210

Audit questioned an invoice for McLane, Graf, Raulerson & Middleton. The matter name listed on the invoice states, "EnergyNorth Natural Gas, Inc. – Excess Capacity Investigation (DG 12-001)". Granite State acknowledged the invoice in the amount of $4,550.25 was paid out of the wrong company. **Audit Issue #30**

A Travel and Expense Reimbursement for $1,198.98 was split using a 50/50 allocation instead of 70/30. Audit questioned the allocation method used and received the following response from GSE, *"As detailed in the back up sent with invoice, this employee's estimation based on numerous transactions applicable to each company"*. GSE was charged $599.49 when it should have been charged $359.69 resulting in an overpayment of $239.80. **Audit Issue #32**

Account 8830-2-9865-69-5130-9210

Audit reviewed an invoice for Spectrum Marketing Companies in the amount of $6,695.70. After the 30% allocation, $2,008.71 was charged to Granite State. This invoice was for the remaining balance on signs. Granite State's capitalization policy notes that they capitalize costs over $2,500. This invoice alone was not over the threshold but if it was truly a remaining balance, the total costs might be over. Audit had Granite State look into this and it was determined that a previous invoice for $2,794.29 was issued. This pervious invoice was allocated 60/40. GSE assumed the allocation was based on the sign locations. At 40%, GSE was charged $1,117.72 making the total of the project over the capitalization threshold. GSE agreed this should have been capitalized. If allocated properly, the amount GSE should have been charged would have been $838.29, therefore they overpaid by $279.43 **Audit Issue #32**

General Ledger Accounts for A&G-Outside Services Employed

Company	Account & Description		Amount
NGrid	923000 – A&G-Outside Services Employed	$	1,892,380
LU/GSE	8830-2-0000-69-5200-9230 – Outside services employed-other	$	(115,646)
LU/GSE	8830-2-9800-69-5200-9230 – Outside services-IT	$	282,258
LU/GSE	8830-2-9810-69-5220-9230 – Outside services-HR	$	65,942
LU/GSE	8830-2-9815-69-5200-9230 – Outside services-Environmental/H&S		22,910
LU/GSE	8830-2-9820-69-5200-9230 – Outside services-finance and Admin		159,940
LU/GSE	8830-2-9830-69-5200-9230 – Outside services-Regulatory	$	86,710
LU/GSE	8830-2-9835-69-5200-9230 – Outside services-Energy Procurement		45,424
LU/GSE	8830-2-9840-69-5200-9230 – Outside services-Procurement/SC		65,908
LU/GSE	8830-2-9850-69-5200-9230 – Outside services-Operations	$	342,727
LU/GSE	8830-2-9855-69-5200-9230 – Outside services-Legal	$	26,513
LU/GSE	8830-2-9865-69-5200-9230 – Outside services-Customer service		158,486
LU/GSE	8830-2-0000-69-5200-9231 – Outside services LU HO Allocations		196,007
LU/GSE	8830-2-0000-69-5200-9232 – Outside services APUC HO Allocations		366,178
		$	3,595,737

OCA Data Request 1-5 requested the following: *"Reference FERC Form F-1/Form 3-Q for Q2 2012. At page 325 line 9 the amount shown for "Outside Services Employed" is $1,892,292. The corresponding amount in the prior year was $198,289. Please explain the significant increase and provide a detailed accounting and explanation of costs included in the $1,892,292."*

Granite State responded with the following: *"The increase is primarily due to charges from IBM for IT services related to the sale of Granite State Electric, as well, as outside legal expense and National Grid Shared Services costs, which include allocated costs of support from centralized services. The IBM IT costs were adjusted out of the cost of service for purposed of permanent rates."*

Account 8830-2-0000-69-5200-9231

Audit determined that intercompany invoice JC4979 for $19,938.40 for Ernst & Young Advisory Services does not appear to be a yearly occurrence. **Non-recurring**

Account 8830-2-0000-69-5200-9232

Audit noted an allocation issued with intercompany invoice JC4455. The invoice total was $6,659.69 and should have been allocated using the 70/30 ratio. GSE was erroneously charged $2,207.68 when they should have been charged $1,997.91. GSE's allocation was overstated by $209.77. **Audit Issue #32**

Audit questioned why intercompany invoice JC4786 for $11,620.70 was not allocated 70/30 as other invoices with the Customer ID of "2100EAST" were. Granite State noted the job number "2100-9830-EAST REG Rate Case for East region" referred to the Granite State rate case, therefore the charge was 100% GSE and charged directly to them. Audit also noted that since this is a rate case expense it should have been deferred. **Audit Issue #31**

Account 8830-2-9865-69-5200-9230

Audit determined an invoice in the amount of $207.67 for Epicurean Feast should have posted below the line. The invoice was for a Christmas breakfast and the charges were allocated 70/30. GSE's portion of the bill, $207.67, is considered ineligible for consideration in the rate case. **Audit Issue #34**

General Ledger Accounts for Property Insurance

Company	Account & Description	Amount
NGrid	924000 – Property Insurance	$ 1,038,922
LU/GSE	8830-2-0000-69-5280-9240 – Property Insurance	$ 1,106,785
		$ 2,145,707

General Ledger Accounts for Injuries & Damages Insurance

Company	Account & Description	Amount
NGrid	925000 – Injuries & Damages Insurance	$ 186,535
LU/GSE	8830-2-0000-69-5280-9250 – Injuries and damages	$ 431,276
		$ 617,811
12/31/2012 Accrual Entry		$ (190,000)
Filing Amount		$ 427,811

General Ledger Accounts for Employee Pensions & Benefits

Company	Account & Description	Amount
NGrid	926000 – Employee Pensions & Benefits	$ 899,933
LU/GSE	8830-2-0000-69-5043-9260 – Employee pensions and benefits-401k	329,385
LU/GSE	8830-2-0000-5043-9262 – ESPP Expense	$ 1,429
LU/GSE	8830-2-0000-69-5043-9263 – Opt-Out Credit	$ 3,624
LU/GSE	8830-2-0000-69-5043-9267 – Pension	$ (22,421)
LU/GSE	8830-2-0000-69-5043-9269 – 401K Match	$ 44,095
LU/GSE	8830-2-0000-69-5044-9260 – Group Benefits	$ 422,648
LU/GSE	8830-2-0000-69-5044-9268 – Group Life	$ 18,948
LU/GSE	8830-2-0000-69-5045-9260 – Workers' Compensation	$ 1,117
		$ 1,698,758
12/31/2012 Entries		$ 319,082
Filing Amount		$ 2,017,840

General Ledger for Regulatory Comm Expenses

Company	Account & Description	Amount
NGrid	927000 – Franchise Requirements	$ 77
NGrid	928000 – Regulatory Comm Expenses	$ 387,427
LU/GSE	8830-2-000-69-5610-9280 – Regulatory commission expenses	$ 147,747
		$ 535,251

General Ledger Accounts for A&G-Institutional/Goodwill Adv

Company	Account & Description	Amount
NGrid	930110 – A&G-Institutional/Goodwill Adv	$ 18,211

General Ledger Accounts for A&G-Misc Expenses

Company	Account & Description	Amount
NGrid	930200 – A&G Misc Expenses	$ 15,946
NGrid	930210 – A&G Research & Development	$ 4,563
LU/GSE	8830-2-0000-69-5615-9302 – Miscellaneous general expenses	$ 63,042
		$ 83,551
LU/GSE	8830-2-0000-69-5045-9270 – Franchise Requirements	$ 15
		$ 83,566

According to Granite State *"Account 927 was not included in the case but the $15 charge was included with the amount for 8830-2-0000-69-5615-9302."* The charge posted to account 8830-2-0000-69-5045-9270. A Form 9 was submitted to the State of New Hampshire Corporate Division along with a $15 filing fee. The name of the corporation on the form is EnergyNorth Natural Gas, Inc. Audit questioned if this invoice was in fact for EnergyNorth and Granite State confirmed it was indeed for EnergyNorth and was paid out of the wrong company. Granite State followed up by stating they made an error in saying it was paid out of the incorrect company. There were two Form 9 submitted to the State of NH. One was for Granite State and one was for EnergyNorth. Audit selected journal entry #918 which was in fact for the Granite State invoice. Journal entry #916, which was not on the Granite State general ledger was for EnergyNorth. Granite State supplied the proper invoice for Audit's review. Screen shots of the AP system were also provided showing that payment was made by both GSE and ENNG.

Account 8830-2-0000-69-5615-9302

Audit determined that the Business and Industry Association invoice for the Annual Dinner Table purchase should post below the line. According to their website, "*The Business and Industry Association is New Hampshire's statewide chamber of commerce and leading business advocate*". Payments to advocates are not allowed to flow through to the customers. The invoice total of $1,000 was allocated 70/30, resulting in GSE's $300 charge being ineligible. **Audit Issue #34**

General Ledger Accounts for A&G-Rents

Company	Account & Description	Amount
NGrid	931000 – A&G-Rents	$ 64,691
NGrid	931005 – Airplane Rent Expense-Elim	$ 1,469
LU/GSE	8830-2-0000-69-5110-9310 – Rents	$ 28,332
		$ 94,492

General Ledger Accounts for A&G-Maint-General Plant-Elec

Company	Account & Description	Amount
NGrid	935000 – A&G Maint-General Plant-Elec	$ 14,578

Miscellaneous and Payroll Related Accrual Accounts

8830-2-0000-20-2110-2420 – Misc Accrued Liabilities $3,818,133

Account 8830-2-0000-20-2110-2420 contained $4,836,551 in debit entries and $8,654,684 in credit entries resulting in a year-end balance of $3,818,133. The account contained accruals for a wide range of activities such as accrued payroll, worker's comp, insurance, intercompany invoices, and payable entries. Audit was able to verify the general ledger amount back to the filing.

8830-2-0000-20-2141-2426 – Curr&Accr Liab-Payroll $111,732

Current and Accrued Liability-Payroll account 8830-2-0000-20-2141-2426 reflects one entry, the beginning balance, on 7/1/2012. No other activity was recorded. Audit was able to tie the general ledger balance to the filing.

8830-2-0000-20-2141-2427 – Curr&Accr Liab-Healthcare Accr $35,477

Account 8830-2-0000-20-2141-2427, Current and Accrued Liabilities for Healthcare contained one entry. The beginning balance was recorded 7/1/2012 and no other activity was logged. Audit was able to tie the filing to the general ledger

8830-2-0000-20-2141-2428 – Curr&Accr Liab-Vac Accrual $110,614

Current & Accrued Liabilities-Vacation account 8830-2-0000-20-2141-2428 contained a credit opening balance of $206,000. There was one debit entry on 9/30/2012 for $95,386 with the description of "handle vacation and bonus accr". The balance in the account of $110,614 at the end of the year reconciled with the filing.

8830-2-0000-20-2141-2429 – Curr&Accr Liab-NG USA Goals $144,904.28

Current & Accrued Liabilities-NG USA Goals, account 8830-2-0000-20-2141-2429 contained a credit beginning balance of $6,071. There were two credit entries on 9/30/2012 totaling $138,833. The ending balance was $144,904, which agreed with the filing.

8830-2-0000-20-2142-2421 – Curr&Accr Liab-Health Dental $1,922.13

Account 8830-2-0000-20-2142-2421, Current and Accrued Liabilities for Health Dental contained one entry. The beginning balance was recorded 7/1/2012 and no other activity was logged. Audit was able to tie the general ledger to the filing.

8830-2-0000-20-2142-2422 – Curr&Accr Liab-Acct Pay Accrl $34,861

Current and Accrued Liability-Acct Pay 8830-2-0000-20-2142-2422 reflects one entry, the beginning balance, on 7/1/2012. No other activity was recorded. Audit was able to tie the filing to the general ledger balance.

8830-2-0000-20-2510-2364 – Tx Accr-Fed Unempl Comp $393

Account 8830-2-0000-20-2510-2364, Tax Accrual for Federal Unemployment contained only the beginning balance entry. The general ledger account total of $393 reconciled with the filing.

8830-2-0000-20-2530-2365 – Tx Accr-State Unemployment $58

Tax Accrual for State Unemployment account 883-2-0000-20-2530-2365 contained a credit beginning balance of $140. There was one entry for quarterly tax and wage report for a debit of $82. The ending balance of $58 coincided with the filing.

8830-2-0000-20-2530-2366 – Tx Accr-FICA Company Portion $14,642

Account 8830-2-0000-20-2530-2366 contained one entry, the beginning balance. The general ledger credit balance of $14,642 reconciled to the filing.

8830-2-0000-20-2550-2411 – Tx Coll Pay FICA $5,780

General ledger account 8830-2-0000-20-2550-2411 credit balance of $5,780 reflects the beginning balance. There was no other activity in the account. The filing was tied back to the general ledger balance.

8830-2-0000-20-2550-2414 – Tx Coll Pay-Fed Inc Withholding $18,356

Account 8830-2-0000-20-2550-2414 contained one entry, the beginning credit balance of $18,356, which reconciled to the filing.

Total General Ledger	$1,133,085
Less: Closing Entries	$ 137,519
Filing Amount	$1,270,604

ISO Invoices

Audit reviewed the ISO New England invoices for the months of January, February, March, April, May and June 2012. Per the ISO-NE website, *"The monthly bill includes the twice weekly bill, plus Monthly settlements such as Forward Capacity Market, Open Access Transmission Tariff, ISO Tariff, and Data Reconciliation Process Resettlement."* The invoice amounts due for the months of January, March, April, and May were matched to the bank account statements which tie to the general ledger. The invoice amounts for February and June match the general ledger but could not be traced back to the bank account statement.

Per FERC Docket No. IN12-7-000 New England Parties' Joint Request for Disbursement, the request for disbursement from the disgorgement fund was approved. As outlined in the Attachment B, Final Intrastate Allocations, Granite State Electric was credited with $144,563.03. The credit was included with the ISO-NE invoice #136764 dated 12/17/2012 without exception.

Granite State AP Aging

Audit requested and received a Historical Aged Trail Balance for Accounts Payable. The total AP on the aging report at 12/31/2012 was $8,139,105, while the Rate Case Filing showed an AP total of $10,980,264. Audit questioned the difference a received the following response: *"These are not the same things. The items in the RR-W are accruals they just labeled as AP. The aging that Paul K gave to you was an actual AP listing that runs off of the service company (8810). Now AP is paid directly from GSE."*

Out of the $8,139,105.03 total only 3.8% of the invoices are categorized as 91 days and over. Audit questioned if any payments have been made on these items since 12/31/2012. The only amount that remains open is $5,816.31 for Liberty Utilities. A screen shot provided by shows the amount has not been billed.

Payroll

Audit reviewed all of Granite State's general ledger payroll accounts denoted with a source code of "UPRCC". From that review, Audit selected 16 general ledger accounts. Based on those 16 accounts, Granite State provided Audit with all of the journal entries for the last pay period in 2012 and the first pay period in 2013. From that listing, Audit selected a total of 25 employees for timesheets and pay stubs review. The employees selected were both Union and Non-union workers.

Referencing the response to Dartmouth Hitchcock's request No. DH 1-7, *"Liberty Energy Utilities New Hampshire Corp. employs all employees who charge time to Granite State. Of those employees charged in any amount to Granite State, 34% are unionized, which represents 43.9% of the base payroll charged to Granite State."*

Audit reviewed all of the timesheets and paystubs for the 25 employees. There was one exception noted. Union employee #4035 was paid for 21 hours of overtime though his timesheets only showed 10 hours of overtime for that pay period. Audit questioned Granite State about this and it was noted that they previously utilized combine team timesheets. The combine team timesheet contained all employees' hours who were working on a particular job. Using the combine timesheets does not allow for filing employees in alphabetical order. The additional 10 hours could have been on one of these timesheets. These team timesheets are no longer being utilized. Audit could not verify the overtime hours were correct.

During Audit's review of the timesheets it was noticed that Non-union employees were receiving overtime. Audit questioned how overtime is handled for these individuals. Granite State noted that, *"Non Union Salary employees are Exempt from overtime, there are a few salary employees who do receive overtime and that is because of the nature of their job."* Granite State continued with, *"technically all employees below Directors are eligible* (for overtime) *if there is a Storm declared."* Audit questioned how one could determine if the overtime was properly given for storms and received the following, "*it goes by the Storm Job number, each storm is issued a Job #. But for the most part anyone who is clearly working a storm is likely to be eligible, unless they are a Director."*

Audit also noticed that some of the Non-union employees' timesheets were noted for less than 40 hours but were being paid the full 40. Audit questioned this and it was noted from Granite State Payroll that *"Everyone has a minimum of 40 hours on their timesheet and are paid 40. If they work less than 40 hours they most likely will use some benefit time to cover the difference."*

Payroll policies and procedures were obtained and reviewed. In the procedures there is no mention of supervisor approval for Union workers. It does however mention that Salary employees submit timesheets to their supervisors. During the initial stages of the audit a Questionnaire was sent to GSE by Audit. One of the question asked was, "Are all time cards approved by supervisors?" Granite State responded with a "yes". During Audits review of the timesheets it was noticed that not all of them had signatures on them (whether electronically typed or a real signature). When Granite State was asked about the supervisor's approval the Payroll Specialist stated: *"The Non-union timesheets are sent to their Supervisors, for approval, the timesheets are then forwarded to me via email and some supervisors input their electronic signature and others forward with the word approved in the emails. I do prefer that the timesheets have electronic signatures but if you need me to research the approved emails I can, it just may take a little longer."*

Audit chose a sample of employees' timesheets that did not have signatures on them and requested the approval email. Payroll was able to provide approval emails for all employees requested. Payroll did note that they should obtain signatures on the actual timesheets and would being to require them.

Union Labor contracts were also received and reviewed.

<u>Payroll End of Year Accrual</u>

Audit requested an analysis of Granite State's end of year payroll accrual. The following analysis was received:

- *Union payrolls are paid weekly. The Dec 29th union payroll was included in the December close. Union payroll was accrued for Saturday December 30th and Sunday December 31st totaling in Journal entry 29,924.*
    - *Labor* *$17,456.97*
    - *Payroll taxes* *$1,505.07*
    - *Benefits & worker's compensation* *$7,052.62*

- *Non-Union payroll is paid one week current, one week in advance. Non-union payroll was paid on Dec 29th for the week of Dec 29th and January 5th. An entry was made to decrease the payroll by four days of advance (January 1st – 4th).*
    - *The amount of payroll was estimated using Ceridian payrolls for Dec 21st that included both union and non-union, and reducing that total by the Dec 29th union payroll. The remainder represents 2weeks of non-union payroll. This was divided by two to get one week, then divided by 5 and multiplied by 4 to obtain 4 days of non-union pay.*
    - *The result was spilt between Granite and EnergyNorth based on year to date payroll charges to each company.*
    - *The reduction to Granite State was $52,189.88 in Journal entry 29,989.*
- *Both entries reversed in January.*

Vacation analysis:
No accruals were made for vacation for the following reasons:

- *Vacation time is earned through-out the year.*
    - *The greatest liability would be at year end. However, there is implied incentive to not terminate at year end because bonuses are paid in the following year. An employee forfeits their bonus if they leave prior to bonus payout.*
- *Accrued vacation would be paid if an employee left the company.*
    - *However, the turn-over rate is extremely low.*
    - *Vacation carry-over is limited to one week.*
- *Payroll expense is not impacted by vacation pay. The only liability would be if an employee terminated.*

Audit reviewed the journal entries and deemed the calculations appropriate.

Audit reviewed one invoice for accrued vacation pay-out on termination. Audit questioned if this was the only severance pay out in 2012. The response was that this was not a severance pay because it was a pay-out of vacation that had been earned. Granite State followed up with *"we don't have a severance pay policy".*

<u>Incentive Compensation Program</u>

For the test year of 2012 National Grid paid and accrued bonuses. Liberty accrued bonuses but did not pay them until 2013.

Liberty has two incentive compensation programs, Shared Bonus Pool (SBP) and Short-Term Incentive Plan (STIP).

The purpose of the SBP is to provide non-management employees with a bonus program and recognize employee performance. Eligible employees include all non-management employees up to the Supervisor level who achieve a "Meets Expectations" performance rating or higher. Eligible employees are assigned a bonus percentage of 1.7%-10% of base salary. The actual bonus is linked to the business result of the region and the employee performance rating in the year. Bonus payments are provided in either March or April. Union employees are included in the SBP program. The payout percentages for Union employees are:

Threshold: 2.5%
Target: 3.5%
Max: 4.5%

The purpose of the STIP program is to provide management employees with an annual bonus program that focuses on the achievement of key company and personal objectives. Eligible employees include the Manager level up to the President of the company. Bonus percentages range from 10%-45% of base salary. This bonus is also linked to the business result of the region.

National Grid paid a total of $599,685 in bonuses to their employees in 2012. $173,660 accrued to Granite State while the remaining $426,025 accrued to National Grid. Period 3 bonuses were paid in June and totaled $504,408.15 with period 4 bonuses being paid in July totaling $95,276.69. The regulatory account to which the bonuses post is 242204-Curr&Accr Liab-NG USA Goals. Audit could not verify the bonus payment to this account.

Payroll Tax

Granite State reported $387,295 of payroll tax expense on schedule Puc 1604.04(a)(1)a.b. The filing amount tied to the following general ledger accounts:

Company	Account & Description		Amount
NGrid	408100 – Tx Oth Inc Tx-Fed Unempl Comp	$	780
NGrid	408110 – Tx Oth Inc Tx-FICA Co Portion	$	158,095
NGrid	408130 – Tx Oth Inc Tx-St Unempl Tax	$	5,143
LU/GSE	8830-2-9800-69-5040-4080 – Social Security Taxes	$	9,512
LU/GSE	8830-2-9800-69-5041-4080 – Federal Unemployment Taxes	$	440
LU/GSE	8830-2-9800-69-5041-4082 – Tx Oth In Tx-St Unempl tax-IT	$	2,886
LU/GSE	8830-2-9800-69-5042-4080 – Medicare	$	1,748
LU/GSE	8830-2-9810-69-5040-4080 – Social Security Taxes	$	6,022
LU/GSE	8830-2-9810-69-5041-4080 – Federal Unemployment taxes	$	118
LU/GSE	8830-2-9810-69-5041-4082 – Tx Oth Inc Tx-ST Unempl Tax-HR		949
LU/GSE	8830-2-9810-69-5042-4080 – Medicare	$	1,472
LU/GSE	8830-2-9815-69-4050-4080 – Social Security Taxes	$	4,548
LU/GSE	8830-2-9815-69-5041-4080 – Federal Unemployment Taxes	$	93

LU/GSE	8830-2-9815-69-5041-4082 – Tx Oth Inc Tx-St Unempl Tax-Environ		673
LU/GSE	8830-2-9815-69-5042-4080 – Medicare	$	1,032
LU/GSE	8830-2-9820-69-5040-4080 – Social Security Taxes	$	6,787
LU/GSE	8830-2-9820-69-5041-4080 – Federal Unemployment Taxes	$	(117)
LU/GSE	8830-2-9820-69-5041-4081 – Tx Oth Inc Tx-FICA Co Portion	$	(2,129)
LU/GSE	8830-2-9820-69-5041-4082 – Tx Oth Inc Tx-ST Unempl Tax	$	1,683
LU/GSE	8830-2-9820-69-5042-4080 – Medicare	$	1,963
LU/GSE	8830-2-9820-69-5040-4080 – Social Security Taxes	$	7,184
LU/GSE	8830-2-9830-69-5041-4080 – Federal Unemployment Taxes	$	114
LU/GSE	8830-2-9830-69-5041-4082 – Tx Oth Inc Tx-St Unempl Tax	$	930
LU/GSE	8830-2-9830-69-5042-4080 – Medicare	$	1,370
LU/GSE	8830-2-9835-69-5040-4080 – Social Security Taxes	$	6,212
LU/GSE	8830-2-9835-69-5041-4080 – Federal Unemployment Taxes	$	49
LU/GSE	8830-2-9835-69-5041-4082 – Tx Oth Inc Tx-St Unempl Tax	$	961
LU/GSE	8830-2-9835-69-5042-4080 – Medicare	$	1,459
LU/GSE	8830-2-9850-69-5040-4080 – Social Security Taxes	$	84,572
LU/GSE	8830-2-9850-69-5041-4080 – Federal Unemployment Taxes	$	2,293
LU/GSE	8830-2-9850-69-5041-4082 – Tx Oth Inc Tx-St Unempl Tax	$	17,790
LU/GSE	8830-2-9850-69-5042-4080 – Medicare	$	21,449
LU/GSE	8830-2-9855-69-5040-4080 – Social Security Taxes	$	2,708
LU/GSE	8830-2-9855-69-5041-4080 – Federal Unemployment Taxes	$	54
LU/GSE	8830-2-9855-69-5041-4082 – Tx Oth Inc Tx-St Unempl tax-Legal		430
LU/GSE	8830-2-9855-69-5042-4080 – Medicare	$	633
LU/GSE	8830-2-9860-69-5040-4080 – Social Security Taxes	$	6,651
LU/GSE	8830-2-9860-69-5041-4080 – Federal Unemployment Taxes	$	276
LU/GSE	8830-2-9860-69-5041-4082 – Tx Oth Inc Tx-St Unempl Tax	$	2,298
LU/GSE	8830-2-9860-69-5042-4080 – Medicare	$	2,654
LU/GSE	8830-2-9865-69-5040-4080 – Social Security Taxes	$	18,478
LU/GSE	8830-2-9865-69-5041-4080 – Federal Unemployment Taxes	$	389
LU/GSE	8830-2-9865-69-5041-4082 – Tx Oth Inc Tx-St Unempl Tax	$	2,802
LU/GSE	8830-2-9865-69-5042-4080 – Medicare	$	3,841
		$	387,295

Audit requested copies of the payroll tax returns for 2010, 2011, and 2012. The returns received were the State and Federal Unemployment tax returns and the Federal Tax Return for Social Security and Medicare.

Audit requested a copy of Liberty Energy Utilities, NH's W-3. I t was requested to show Granite State's portion versus EnergyNorth's portion. Audit received the W-3 as requested for Liberty NH. As all employees work for the service company (Liberty NH), there is no way to provide W-3 by company, Granite State and EnergyNorth. **Audit Issue #36**

Ceridian's year-end payroll register shows the total wages for both Granite State and EnergyNorth to be $9,127,062.23. Granite State provided a break-down of Granite State's payroll to be $3,579,007 and EnergyNorth's payroll to be $5,547,167, totaling $9,226,174. <u>The variance is $99,112.</u>

Granite State said there is a difference in the numbers due to a difference between GSE's payroll rates and what Ceridian pays. Granite State's total is based on their time track system and what they allocated to each job. The Ceridian amount is what was actually paid. There is a slight difference in the rates each uses.

Audit unsuccessfully tied the tax returns to the general ledger and filing. Audit questioned Granite State on how this could be accomplished and was told it was very unlikely the numbers would tie. The first reason is Granite State did not remember if they used the 70/30 allocation or if it was based on the employee's payroll for the month. The second reason is that the totals on the general ledger and filing were reduced by capitalized payroll and billable payroll. Granite State said the only way Audit would be able to verify the general ledger numbers were in the correct ball park was to apply an average tax rate to the payroll and verify that the general ledger numbers were lower.

Granite State applied the averaged payroll taxes for July-December of 8.598% from the Ceridian summary sheet to the Granite State payroll of $3,579,007. The total came to $307,723. The total payroll taxes filed for Granite State was $223,277. The difference is $84,446.

Audit was unable to verify the payroll taxes on the general ledger and filing are accurate.

Taxes - Federal Income Tax

Audit requested copies the federal tax returns filed by Granite State for 2010, 2011 and 2012. Pro forma federal form 1120 tax returns for Granite State were provided for 3/31/2010, 3/31/2011 and 3/31/2012. The test year was calendar year 2012; Granite State filed its tax returns on a fiscal year basis, only three months of the test year (January through March) have actually been filed as of the date of this report.

The state business tax returns, which start with the federal tax returns as filed with the Internal Revenue Service (IRS) indicated that Granite State filed its federal tax returns as part of National Grid Holdings Inc. and Subsidiaries consolidated 1120 return. The National Grid consolidated 1120 return and consolidating supporting schedules were not provided, Audit is unable to verify that the pro forma federal returns would tie to the Granite State activity reported in the consolidated 1120 federal returns and with the general ledger.

Audit requested complete copies of the consolidated federal returns actually filed with IRS for 2010, 2011 and 2012 along with a schedule of tax attributes (net operating losses and carryovers, general business credit carryovers, alternative minimum tax credit carryovers and capital losses) available to Granite State for 2010, 2011, 2012 and future periods. These were provided. **Audit Issue #37**

Audit had a conference call with Granite State and National Grid on 8/2/2013. National Grid was reluctant to provide the consolidated returns and additional information requested by Audit. Audit explained that an understanding of how the tax expenses, assets and liabilities were booked and trued-up (i.e. separate entity or consolidated) was necessary. Clarification of what net operating losses and tax credits were available to GSE for future periods was also requested.

The following schedule summarizes the federal pro forma Granite State returns provided by the Company. Based on this information it would appear that Granite State would have federal net operating losses of $6,901,082 for the 3/31/10 return, $1,779,769 for the 3/31/11 return and $4,706,166 for the 3/31/12 return at its disposal if it did not file as part of the National Grid consolidated 1120 for these periods.

Granite State Pro forma Federal Form 1120	**3/31/2010**	**3/31/2011**	**3/31/2012**
Total Income	$12,949,090	$19,430,256	$16,380,452
Total Deductions	($19,850,172)	($21,203,283)	($21,080,006)
Taxable Income Before NOL & Special Deductions	($6,901,082)	($1,773,027)	($4,699,554)
Net Operating Loss or Special Deductions	$0	($6,742)	($6,612)
Taxable Income	($6,901,082)	($1,779,769)	($4,706,166)
Tax	$0	$0	$0
Est. payments or overpayments from prior period	$0	$0	$0
Balance Amount Owed (Overpayment)	$0	$0	$0

The pro forma returns for 2010, 2011 and 2012 included special deductions of $5,978, $6,742 and $6,612 respectively for 70% of dividends from less-than-20% owned domestic corporations. The returns also reflected a capital loss of $2,580 in 2009 and capital gains of $17,025 and $22,683 in 2010 and 2011 respectively.

It should be noted that while Granite State was owned by National Grid it filed its federal tax returns as part of a consolidated group, since no tax returns have been provided since Granite State was sold to Liberty, Audit does not know how the Company will be filing its federal tax returns in the future. If Granite State chooses to file its federal tax returns as part of a consolidated group, Staff should be aware that the tax is paid on the consolidated group's taxable income.

<u>Federal Income Tax Expense ($357,780)</u>

Granite State reported Federal Income Tax Expense (FIT) of $(357,780) on both schedules 1604.04(a) (1) a. b. and RR-2-1 of the filing which tied back to the following NGrid general ledgers (no activity was reported on the Liberty/GSE general ledger):

Federal Income Tax Expense (FIT #410)

409150	Fed Inc Tx-Current Year	$ (56,408)
409151	Fed Inc Tx-Utility Operations	$ 381,395
409160	Fed Inc Tx-Prior Years	$(1,700,585)
410100	Def FIT Expense-Debit	$ (237,412)
410105	Def FIT Expense-Prior Year	$1,700,585
411100	Def FIT Expense-Credit	$ (428,176)
411400	ITC Adjustment-Amort	$ (17,178)
		$ (357,780)

Audit was unable to tie the above pro forma returns to the NGrid general ledger accounts listed above.

Additionally, the above expense reflects the taxes associated with the utility operations only and does not include NGrid general ledger tax activity associated with other income and deductions below:

410200	Def FIT Exp-Other Oper-Debit	($36,631)
409200	Fed Inc Tx-Nonutility Oper	$56,408
		$19,777

Audit Issue #38

Accumulated Deferred Income Tax (ADIT)

Order No. 25,370 (DG 11-040) indicated "*Liberty also commits to holding customers harmless for the elimination of the historical accumulated deferred income tax (ADIT) liabilities resulting from its election under section 338(h)(10) of the Internal Revenue Service Code in accounting for its acquisition of Granite State common stock*…" and "*further ratepayer protection is achieved by maintaining pro forma accounting for regulatory purposes to continue to provide ratepayers with the ratemaking benefit of Granite State's pre-acquisition ADIT balances until such time as actual ADIT balances related to the historical utility plant assets acquired equals or exceeds the levels that the pro forma ADIT would have been*…" and "*the ADIT balances related to capital additions after the closing date are not affected by the section 338(h)(10) election and the treatment of these balances will not change for accounting and ratemaking purposes*". These items appear to have been eliminated in the filing.

State Business Taxes

Audit requested copies of 2010, 2011 and 2012 state tax returns filed by Granite State. Copies of the three most recently filed (3/31/10, 3/31/11 and 3/31/12) combined group water's edge tax returns for National Grid Holdings Inc. & Subsidiaries were provided. The combined returns included Granite State's business activity. The necessary consolidating and combining schedules which breakout each business entity on a separate entity basis were not provided.
Audit Issue #39

Audit requested complete copies of the combined group business tax returns along with all consolidating and combining schedules for 2010, 2011 and 2012 along with a copy of the tax sharing agreement, schedule of tax attributes (net operating losses, BETCR carryovers, and capital losses) available to Granite State for 2010, 2011, 2012 and future periods. These were not provided. The test year was calendar year 2012; Granite State filed its tax returns on a fiscal year basis, only three months of the test year (January through March) have actually been filed as of the date of this report. The income tax expense general ledger activity provided was for National Grid and included monthly activity through June, no income tax expense activity was reflected on the LU/GSE general ledger. Audit was not able to tie the state business tax activity, as reported to the State, to the general ledger and requested a reconciliation from the Company. **Audit Issue #39**

Audit, in the 8/2/2013 conference call with Granite State and National Grid, explained that they were unable to tie the taxes reported to the State to the general ledger. The timing issue was discussed (fiscal year ending 3/31) and the National Grid tax person explained that Audit would not be able to tie the taxes reported to the State with the general ledger, the consolidated returns would not help and that the pro form returns were sufficient for Audit's purposes. Clarification of what net operating losses and Business Enterprise Tax credit were available to GSE for future periods was also discussed and requested. **Audit Issue #39**

The proformed National Grid Holdings Inc. and Subsidiaries combined tax return included a schedule (NH 1120-WE, Schedule C Attachment) that listed the business organizations included in the combined return which was approximately 70-75 business organizations. The 70-75 business organizations included the members of the National Grid Holdings Inc. and Subsidiaries included in the consolidated return as well as 2-3 additional unitary business organizations.

The following schedule summarizes the National Grid combined state business tax returns. The last line indicates Granite State's portion of the BETCR for 2010 and 2011. The Company did not provide the information for 2012.

National Grid Holdings & Subsidiaries Combined Group State Business Tax Returns

<u>**Summary of New Hampshire Business Taxes**</u>	**3/31/2010**	**3/31/2011**	**3/31/2012**
Business Enterprise Tax Due	$226,188	$207,348	$230,259
Business Profits Tax Due (net of BETCR)	$16,282	$940,288	$693,205
Total Tax Due	$242,470	$1,147,636	$923,464
Less payments	($350,000)	($1,820,000)	($750,000)
Less Credit Carried Over From Prior Tax Period	($517,082)	($324,612)	($996,976)
Balance of Tax Due with Return (Overpayment)	($624,612)	($996,976)	($823,512)
Amt of Overpayment to be Credited to Next Yr	($324,612)	($996,976)	($823,512)
Amt of Overpayment to be Refunded	($300,000)	$0	$0

Business Enterprise Tax (BET)	**3/31/2010**	**3/31/2011**	**3/31/2012**
Enterprise Value Tax Base	$30,158,450	$27,646,395	$30,701,262
Tax Rate	0.0075	0.0075	0.0075
BET Due	$226,188	$207,348	$230,259
Business Profits Tax (BPT) (NH-1120-WE)			
Adjusted Gross Business Profits	$175,371,227	$838,221,744	$613,697,059
New Hampshire Apportionment	0.016266	0.016849	0.017703
NH Water's Edge Taxable Business Profits	$2,852,588	$14,123,198	$10,864,279
Tax Rate	0.085	0.085	0.085
BPT	$242,470	$1,200,472	$923,464
Less BET Credit	($226,188)	($260,184)	($230,259)
BPT net of credits	$16,282	$940,288	$693,205
GSE's Portion of total BETCR per Attachment	$36,864	$35,883	

It should be noted that while Granite State was owned by National Grid it filed its State of New Hampshire business tax returns as part of a water's edge combined group. Since no tax returns have been provided since Granite State was sold to Liberty, Audit does not know how the Company will be filing its state business tax returns in the future. If Granite State decides to file its state business tax returns as part of a combined group, Staff should be aware that apportionment and combined filing provisions will affect the ultimate actual tax expense or recovery for the Company based on the entire combined group rather than on a stand-alone basis.

State Business Tax Expense

Granite State reported State Income Tax Expense (SIT) of $(416,629) on both schedules 1604.04(a) (1) a. b. and RR-2-1 of the filing which tied back to the following NGrid general ledgers (no additional activity was reflected on the Liberty/GSE general ledger):

State Income Tax Expense (SIT # 409)

409101	Tx Oth Inc Tx-NH Bus Profit Tx	$(40,937)
409123	Inc Tx-St Fran MA-Prior Year	$232,239
409128	Inc Tx-St Fran-Prior Year	$(389,854)
410150	Def SIT Expense-Debit	$38,411
410155	Def SIT Expense-Prior Year	$55,719
411150	Def SIT Expense-Credit	$(312,207)
		$(416,629)

As noted above, Audit was unable to tie the above combined tax returns to the above NGrid general ledger accounts.

Additionally, the above expense reflects the taxes associated with the utility operations and does not include NGrid general ledger tax activity associated with other income and deductions below:

410250	Def SIT Exp-Other Oper-Debit	($9,723)
409210	St Inc Tx-Nonutility Oper	$14,972
		$5,249

Audit Issue #40

Taxes-Municipal Property Tax

Prepaid Municipal Property Taxes

Granite State reported prepaid property taxes of $1,929,380 on both schedule 1604.01 and RR-4 of the filing which Audit tied to the following Liberty/GSE general ledger accounts:

8830-2-0000-10-1240-1650	Prepaids	$121,655
8830-2-0000-10-1240-1651	Prepaid Employee Insurance	($3,228)
8830-2-0000-10-1240-1653	Prepaid Taxes- Mun-Property-Oper	$1,810,953
		$1,929,380

Below is a comparison of the ending balance of the NGrid prepaid municipal property tax account and the beginning balance of the LU/GSE prepaid municipal property tax account. There is a difference of $311,422 which Audit is unable to reconcile:

NGrid	165300 -Prepd Taxes-Mun-Property-Oper	$523,553
LU/GSE	8830-2-0000-10-1240-1653-Prepaid Taxes-Mun-Property-Oper	$834,975
	Increase	$311,422

Liberty/GSE account # 8830-2-0000-10-1240-1653, prepaid municipal property tax reflected $1,814,652 of debit activity, $3,699 of credit activity and an ending balance of $1,810,953.

Liberty explained to Staff and OCA (see Staff 2-4) that they were unable to amortize property taxes in 2012 because NGrid did not provide the prepaid ledger balances until September 2012 and that the town level detail was not received until January 2013. They further explained that Liberty estimated accrued property tax expense based on historic property taxes recorded by NGrid and recorded the offset to an accrued liability account (see Accrued and Expense sections below for more information).

The 2012 second billing assessments reviewed by Audit covered October 2012 through March 2013 and totaled $1,346,045. Three months of the assessments or $673,022 were for January, February and March 2013 and should be reflected as prepaid.

Audit identified a property tax assessment from the Town of Derry for EnergyNorth Natural Gas Inc. in the amount of $26,899 that was paid by Granite State on 11/26/2012. The invoice was posted to the prepaid municipal property tax account # 8830-2-0000-10-1240-1653 with the credit offset to the Due to Liberty Energy New Hampshire account # 8830-2-0000-20-2810-2606 resulting in both accounts being overstated by the $26,899. **Audit Issue #41**

Accrued Municipal Property Tax - Account #236 – ($1,274,791)

Within the $12,438,371 of total Accrued Expenses reported on RR-4 of the filing were the following tax accounts:

8830-2-0000-20-2530-2364	Tx Accr-Municipal Property	($1,274,791)
8830-2-0000-20-2550-2416	Tx Coll Pay-Consumption Tax	($41,169)
		($1,315,960)

Liberty/GSE account # 8830-2-0000-20-2550-2416, Consumption Tax, is covered in the Consumption Tax section of this report, below.

Liberty/GSE account #8830-2-0000-20-2530-2364, Tx Accr-Municipal Property, reflected $21,496 of debit activity (beginning balance), $1,296,287 of credit activity and an ending credit balance of $1,274,791. While the Liberty/GSE account reflected a debit beginning balance of $21,496, Audit was unable to tie the amount back to the ending balance of the NGrid account # 236300, Tx Accr-Municipal Property, which reflected an ending balance of zero. **Audit Issue #42**

In addition to the beginning balance mentioned above, the accrual account reflected five monthly credit accruals, four at $248,745 (for August – November) and one at $248,565 (for July) and a "true-up" credit adjusting entry of $52,741. Each of the offsetting debit entries was to the municipal property tax expense account # 8830-2-9820-69-5041-4083.

As mentioned above, in response to PUC Staff and OCA questions about the lack of amortization of the prepaid municipal taxes, Liberty estimated accrued property tax expense based on historic property taxes recorded by NGrid and recorded the offset to an accrued liability account.

Property Tax Expense - Account # 408 - $2,778,746

Granite State reported $2,778,746 of property tax expense (municipal and statewide utility tax) on schedules Puc 1604.01(a)(1) a. b. and RR-2-1 of the filing. The total was verified to the following general ledger accounts:

GRID	408140	$1,478,134	-Jan-Jun monthly accruals & adjustments
Liberty	8830-2-0000-69-5680-4080	$626	-2/2012 purchase of land (in CWIP)
Liberty	8830-2-9820-69-5041-4083	$1,299,986	-Jul-Nov accruals, adjustments & true-up
		$2,778,746	

Audit summarized the calculated Municipal Property Tax and Utility Property Tax expenses for the test year:

Municipal Property Tax	$2,655,282
Utility Property Tax	$ 449,794
Expense for Test Year	$3,105,076
General Ledger #408	$2,778,746
GL understated by	$ 326,330
Proforma Adjustment RR3-14	$ 302,009
Net variance	$ 24,321

Audit calculated the test year property tax expense should have been $3,105,076. With the proforma adjustment noted on schedule RR-3-14, the adjusted and booked test year expense is reflected as $3,080,755. The proformed figure is $24,321 lower than it should have been. Schedule RR3-14 however, also includes a normalization figure of $103,603, bringing the estimate for 2013 to $3,184,358.

Municipal Property Tax

Audit reviewed the property tax assessments for the final property tax billing of 2011 and both billings for property tax year 2012 all of which are totaled and reflected in the schedule below. Also reflected in the schedule is Audit's calculation of the amount of state education taxes included on the assessments and the amount of property tax expense associated with the test year, 2012 which was $2,655,282.

Tax Year	Period Invoiced	Assessed Based on Assessments Provided	State Ed Tax Incld in Assess-ments	Test Year	Pro-rated Assessment Test Year
2011-2nd Billing	Oct 2011-Mar 2012	$1,435,868	$14,907	Jan-Mar 2012	$717,933
2012-1st Billing	Apr-Sep 2012	$1,264,325	$8,314	Apr-Sep 2012	$1,264,325
2012-2nd Billing	Oct 2012-Mar 2013	$1,346,045	$15,901	Oct-Dec 2012	$673,022
		$4,046,238	$39,122		$2,655,282

The above tax assessments indicated a total valuation of approximately $132.5M as of the 2nd billing of 2012.

State law (see RSA 83-F:9) allows an exemption from the Education Tax for persons and property subject to taxation under RSA 83, Utility Property. The Utility Property Tax is imposed on the value of utility property which is defined in relevant part as "…*all real estate, buildings and structures, machinery, dynamos, apparatus, poles, wires, fixtures of all kinds and descriptions, and pipe lines located within New Hampshire employed in the generation, production, supply, distribution, transmission or transportation of electric power…*".

The following municipal tax invoices included State Education Tax but do not appear to be utility property tax as defined under RSA 83, as they are primarily vacant land, not yet used in the generation, production, supply, distribution, transmission, or transportation of electric power.

Charlestown	107-004-187 Michael Ave (purchased 2/17/12)-land held in CWIP	
Charlestown	107-001-LO Michael Ave (purchased 2/14/12)-land held in CWIP	
Charlestown	103-051-LO Michael Ave (purchased 2/14/12)-land held in CWIP	
Charlestown	103-050-LO Michael Ave (purchased 2/14/12)-land held in CWIP	
Lebanon	103-14 -407 Miracle Mile	2 WHSE IND OFF 3.76 AC
Lebanon	116/4 - Glen Rd	Vacant Land
Salem	89/1099-5 Central St	Vacant Land
Salem	116/9915/2-9 Lowell Rd	Vacant Land Cell Tower
Salem	116/9915-9 Lowell Rd	Ind Office MDL-triple net lease
Salem	114/10116-92 Lowell Rd	Res Vac BD MDL-triple net lease

During the review of the property tax assessments Audit noticed that several assessments reflected Liberty Utilities as the owner rather than Granite State and asked the Company if Granite State had sold some its properties to Liberty. The Company said that they were not aware of any sales of property from Granite State to Liberty. They also checked with the Legal department who pointed out “that the name presentation on the website is not a legal document or documenting the change in ownership of property”.

Utility Property Tax

The $2,778,746 of municipal property tax reported on line 76 of Puc 1604.04(a) (1) a. b. of the rate filing included Utility Property Tax of $449,523.

Audit requested and was provided with copies of the 2010, 2011 and 2012 Utility Property Tax returns (Form DP-255) which are summarized below. The $449,523 appears to be associated with 2011. The amount of Utility Property Tax associated with the test year should be $449,794. The variance of $271 is considered immaterial.

Utility Property Tax Returns (Form DP-255)	**2012**	**2011**	**2010**
Utility Property Assessed Valuation	$ 68,150,650	$ 68,109,546	$ 64,746,395
Tax Rate per $1,000 of Utility Property Valuation	6.60	6.60	6.60
Utility Property Tax	$ 449,794	$ 449,523	$ 427,326
Less estimated payments	$ 22,197	$ 427,326	$ 395,758
Balance Due	$ 427,598	$ 22,197	$ 31,568
Filing Signed	4/22/2013	1/11/2012	12/20/2010

The Utility Property Tax is due annually on or before January 15. Estimates based on the tax for the preceding year are due on April 15, June 15, September 15 and December 15.

Electricity Consumption Taxes

Audit requested and was provided with copies of the 2012 monthly Electronic Consumption Tax (ECT) returns (Form DP-133) filed with NH Department of Revenue (DRA) which for 2012 totaled $500,985 in ECT collected by Granite State and remitted to DRA.

	Total
Gross Electrical Consumption (kilowatt hours)	$911,594,514
Taxable Consumption (kilowatt hours)	$910,881,676
Tax Due (Taxable * $0.00055)	$500,985

The Electricity Consumption tax is assessed on consumers in the amount of $0.00055 per kilowatt hour of electricity consumed. 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.

Below is a comparison of the ending balance of the NGrid consumption tax account and the beginning balance of the LU/GSE consumption tax account which reflects a difference of $813:

NGrid	241030 -Tx Coll Pay-Consumption Tax	($43,168)
LU/GSE	8830-2-0000-20-2550-2416-Tx Coll Pay-Consumption Tax	($43,981)
	Difference	$ 813

Audit Issue #43

The NGrid account reflected debit activity of $238,293, credit activity of $281,461 and an ending credit balance of $43,168.

The LU/GSE account reflected debit activity of $261,210, credit activity of $302,379 and an ending credit balance of $41,169. In addition to the regular monthly deposits of consumption tax collected from its customers and payments of the collected taxes to the Department of Revenue, the general ledger also reflected two entries for border sales totaling $92 ($46 for each October and November).

Non-recurring Items

As noted in the Accounts Receivable portion of this audit:

- Unused Grid accounts with no activity during the test year $ 3,295
- One was offset to CWIP #8830-2-0000-10-1618 $143,384
- Three were offset to Misc. Service Revenue #8830-2-0000-40-4210-4560 $287,356
- Two were offset to Salaries expense #8830-2-0000-69-5010-9200 $ 2,234
- One was offset to Purchased Power #8830-2-0000-52-5455-5552

Noted in the Revenue portion of this audit:

- National Grid account #456505 $ 1,130

Noted in the Operations and Maintenance portion of this audit:

- Account 8830-2-0000-69-5130-9210 $ 862
- Account 8830-2-9815-69-5130-9210 $ 550
- Account 8830-2-9830-69-5130-9210 $ 8,429
- Account 8830-2-0000-69-5200-9231 $19,938
- Account 8830-2-0000-56-5210-5940 $ 3,200

Major Storms

Audit obtained and reviewed the annual Major Storm reports as required per Order No. 24,777. The Order outlines rate design, annual reporting for merger and integration costs, annual reporting of distribution rate adjustment if caused by one of 5 exogenous events: 1-state initiated cost changes, 2-federally initiated cost changes, 3-regulatory cost reallocations, 4-excessive inflation, 5-externally imposed accounting rule changes. Beginning 4/1/2009, GSE was required to file annually details of the major storm fund ($10k per month) detail collections credited , details of qualifying major storms during prior year, and a summary of damage. If after 2 years, there was a deficit in fund, GSE could petition the PUC for an increase and corresponding distribution rate change.

For the period January through December 2012, the following summarizes the reported balance:

	Reported	General Ledger	Variance Report - GL
January Beginning Under-collection	$6,722,965	$6,665,108	$ 57,857
Monthly Base Rate Contribution	(120,000)	unknown GL#	
Monthly SRA Factor Contributions	(1,948,715)	unknown GL#	
Monthly Interest	207,541	$ 63,027	$144,514
Storm Charges	2,046,499	$2,145,707	$ (99,208)
December 2012 Ending Balance	$6,908,290	$6,760,941	

Audit requested clarification from Liberty of the specific accounts used for each line item. Specifically:

Regarding the beginning and ending balances noted in the Regulatory Asset accounts:

Nat’l Grid #**182**306, 1/1/2012 was calculated to be $6,665,108
Liberty 8830-2-0000-10-1930-**182**5 at 12/31/2012 was $6,760,941

Liberty indicated that the general ledger ending balance of ($6,760,941) was “*based on a collaborative effort with National Grid’s regulatory team. That team indicated that the opening balance provided on the general ledger to Liberty is “not final”. The Grid regulatory team is supposed to provide a final- July 3 2012 storm fund balance and it should be approximately what was on the storm fund report. Once the final figure is received, Liberty will true up the general ledger and related repor*ts.”

Audit requested clarification regarding the contributions, as the only account referenced was the Liberty Distribution revenue account #8830-2-0000-40-4210-4563. The Distribution revenue account for July through December reflected ($11,096,836). Liberty responded that “The SRA has a separate ‘CONS TYPE’ in CSS system to verify the revenue in rates each month and used in the amortization of the storm fund regulatory asset calculation.” The CONS type “SY” reflected a total for the year of $1,857,712.

Audit requested the accounts used for the interest and was told:
Liberty 8830-2-0000-40-4410-4192 which for July through December was ($62,076)
National Grid account was 419110 which for the period ended 6/2012 was ($951)
Storm Interest per combined General Ledger ($63,027)

Storm expenses were posted to:
Liberty 8830-2-0000-69-5280-9240 Property Insurance and National Grid #924

A **separate audit report** will be issued not later than September 6, 2013 relating the detailed test work completed relating to super-storm Sandy.

Other Annual or Semi-Annual Reconciliations and Related Accounts

Audit requested and was provided with account information relating to the Electric Assistance Program (EAP), the CORE Energy Efficiency Program, both of which are funded through the System Benefits Charge; the Vegetation Management Program (VMP) and Reliability Enhancement Program (REP); The Contract Termination Charge (CTC); the Transmission Charge; and Stranded Costs. Because these programs represent annual or semi-annual reconciliations reviewed by the Commission, detailed audit work was not conducted as part of this rate case audit. Rather, the accounts are summarized for informational purposes only.

EAP

Revenue posts to account 8830-2-0000-20-2005-2320 and is identified as CONS types AX and PP
Interest posts to account #8830-2-0000-80-8550-4310
Over/(under) Balance is reflected in account 8830-2-0000-20-2005-2320 which includes a Commission ordered reserve of $37,923. The balance at year-end was noted to be $111,023. The December 2012 reconciliation of the EAP to the PUC reflects a year end amount to transfer to Treasury of $79,611 plus the reserve balance $37,923 = $117,535. There is a variance of $6,512 resulting from a mispostings of a Belknap Merrimack CAA invoice.

CORE

Revenue flows through account 8830-2-0000-20-2005-2320
Interest posts to account #8830-2-0000-80-8550-4310
Labor related expenses post to account #8830-2-0000-69-5010-9080
Rebates and any non-labor expenses post to account #8830-2-0000-69-5390-9080
Over/(under) Balance is reflected in account #8830-2-0000-20-2142-2423

RGGI Revolving Loan Fund

Available to lend is held in account #8830-2-0000-20-2141-2425

RGGI Re-CORE

Activity within account #8830-2-0000-20-2141-2424, RGGI Funds I-General EE represented Re-CORE related activity (approved by the Commission) for a program which concluded in December 2010**.** The funds at the end of the year represented an incentive earned by National Grid. Liberty noted that the incentive has been returned to National Grid.

VMP and REP

Revenue posted to Liberty 8830-2-0000-40-4210-4563
8830-2-0000-80-8550-4310 Other Interest Expense
8830-2-0000-56-5210-5931 Distribution-Maintenance of Overhead Lines Trouble (Tree) expense
8830-2-0000-56-5210-5932 Distribution-Maintenance of Overhead Lines –Vegetation Management
8830-2-0000-56-5210-5701 Transmission-Maintenance of Substation-Trouble (tree) expense
The Over/Under Liberty 8830-2-0000-20-2141-2422.

An explanation of the accounting treatment of the REP/VMP was provided as follows:

Next Year's Budget for Vegetation Management (sample)	$1,000,000
Prior Year's actual Fairpoint billings	$ (250,000)
Net Vegetation Management for the tariff	$ 750,000

The Budget of $1,000,000 is booked monthly accrue for the vegetation expenses:

O&M vegetation management expense account	83,333	
Accrued expenses		83,333

Semi-annually, Fairpoint is billed for their share of the current vegetation expense:

Cash	$250,000	
Deferral		$250,000

CTC

Revenue posted to National Grid 456005 and posts to Liberty account #8830-2-0000-40-4210-4562.
NEP Access Charge posted to National Grid account 555112 and posts to Liberty 8830-2-0000-52-5455-5553.
The Current and Accrued Liabilities Access Charge Over/Under for National Grid was 242304 and for Liberty 8830-2-0000-20-2142-2425.

Transmission

Revenue posted to National Grid account #456010 and posts to Liberty account 8830-2-0000-40-4210-4561, Other Electric Revenue-Open Access Revenue-Transmission.
Expenses posted to National Grid account 565035 and post to Liberty account 8830-2-0000-51-5442-5651 Elec Rev Wheeling-Elim (NEP LNS); National Grid account 565000, Liberty account 8830-2-0000-51-5441-5650 Transmission of Electricity by Others (ISO Transmission Expense); National Grid account 561400, Liberty account 8830-2-0000-51-5440-5614 Scheduling, System Control & Dispatch (ISO Load Scheduling including ISO Administrative charges)
Deferral of the over/under was reflected in National Grid account 242303, and is reflected in Liberty account 8830-2-0000-20-2142-2424, Current & Accrued Liabilities-Transmission.

Greenup

Revenue was noted in account 8830-2-0000-40-4210-4563, and for the year was $12. Immaterial.

Transition Service – see tariff page 82, (refer to docket DE02-007)

8830-2-0000-10-1101-1423	Under Collect-Default/LR SV	$	66,077

Audit Issue #1
Accuracy of Accounting Information Provided

Background

Audit requested the detailed general ledgers for both National Grid and Liberty for the periods of the test year during which each owned Granite State Electric. Audit also requested recurring journal entries, adjusting entries, and a year-end trial balance.

Issue

Company provided pivot tables indicating those to be the detailed general ledgers for both companies. Throughout the audit work, the Audit Staff relied upon the accuracy of the pivot tables. At the end of the field work, the Company provided updates and revisions to the tables, which indicated to Audit that the original tables did not accurately reflect the true books of either Company. Examples of variances noted (although not comprehensive):

Company	Account & Description	Amount
NGrid	228200 -Injuries & Damages Reserve	($151,608)
LU/GSE	8830-2-0000-20-2930-2280- Accum Provision Injury & Damage	($951,608)
	Variance	**$ 800,000**

8830-2-0000-20-2760-2535 – Pension Costs $15,680,419

Total General Ledger	$15,680,419
Less: Closing Entry	**$ 983,173**
Filing amount	$14,697,246

8830-2-0000-20-2760-2536 – Def Incentive Comp-Pensions $(1,436)

Total General Ledger	$(1,436)
Less: Closing Entries	**$(9,504)**
Filing Amount	$ 8,608

8830-2-0000-20-2760-2538 – FAS 106 Recovery $5,138,043

Total General Ledger	$5,138,043
Less: Closing Entries	**$ 468,524**
Filing Amount	$4,669,519

Recommendation

Adjustments determined during the fieldwork were the result of the Audit Staff researching variances, identifying trial balances that did not include all accounts, and summing of double entry accounting which did not actually match. The financial information provided to the Audit Staff during the course of the audit was unreliable.

Company Response

The Company disagrees with the characterization of the financial information as unreliable. The Company is not aware of any statement made by its employees stating the information did not reflect the books of either company.

The Company apologizes for the confusion regarding the National Grid files. The Company cannot explain why the original query of the National Grid system resulted in flawed information. Attached with this response are three files; 1) a revised National Grid file containing the activity for all accounts for January 2012 through June 2012, 2) a revised National Grid file containing the beginning balances as of April 1, 2012, and 3) a file that reconciles the differences between the original file provided and the revised files attached to this response.

As regards the Liberty general ledger file, simply stated, there were additional entries made to the Company's records after the case was filed. The Company's position is these late entries did not impact the filing.

- Regarding the Injuries and Damages Reserve amount shown above, the NH PUC Audit staff inadvertently used an incorrect amount from the National Grid general ledger file. The correct amount from the original file is $151,608. The amount in the revised file is $951,608.
- The Injuries and Damages Reserve amount shown for Liberty is also not correct. The Liberty general ledger shows $378,247.78. This differs from the filing amount of $188,248 due an entry made after the case was filed that increased the account balance by $190,000 (JE 36168).
- The Liberty general ledger file included all journal entries for the period July – December with one exception even though it was claimed that closing entries were not provided. The general ledger file was extracted prior to the last entry. This last entry debited undistributed stores expense (FERC account 163) and credited materials and supplies (FERC account 154) for $.42. This entry was included in the both trial balances provided but not included in the Liberty general ledger provided.
- The Liberty general ledger file included inactive accounts. However, the first trial balance provided excluded inactive accounts. This resulted in the trial balance debit and credit total not agreeing to the debits and credits reflected on the general ledger file. Within a couple of hours of being notified of this an explanation was provided along with a trial balance that included the inactive accounts and the debits and credits equaled the general ledger file.

Audit Conclusion

Audit concurs with the statement that the Company employees did not indicate the ledger information was unreliable. The Audit further understands that the presentation of the general ledger detail and pivots were provided to Audit in good faith. The query issues discussed by the Company above, as well as the timing issues with the filing, the general ledger closing and late entries, and the timing of the FERC Form 1, were the primary causes of questioning the reliability of the reported information.

Regarding the bullet points above, Audit concurs that the National Grid Injuries and Damage balance at 6/30/2012 was $151,608 according to the original pivot table provided.

Regarding the Liberty Injuries and Damage amount, Audit disagrees with the amounts noted. The opening balance, which was the first entry in the 8830-2-0000-20-2930-2280 account, was a credit of $951,608.

Regarding the closing entries, the issue is restated. Because the information was requested, but not explicitly provided, Audit was tasked with compiling the National Grid information with the Liberty information and comparing the totals to the filing, which we learned, did not include the year end closing and/or late adjusting entries.

Regarding the trial balance and inactive accounts, Audit learned at the exit audit meeting on August 21, 2013 that the accounts did have the activity noted in the text of this report, but were determined by Liberty to be accounts that will not be used in the future and were thus coded as inactive. The coding caused the first trial balance run to exclude the accounts which reflected $13 million debits and credits.

Audit Issue #2

Accounts Written off of the Books in 2013

Informational Issue

Background

Audit had several questions regarding the accuracy of adjustments made to accounts written off the books in 2013, such as mismatching account numbers and titles, debits versus credits. The reliability of the listing was questioned. Below is a compilation of the summary of the adjustments made in 2013 and a brief explanation of how they would have affected the filing. The original entries were provided to the Audit Staff on 07/26/2013 and a revised schedule of entries was received 8/2/13.

Issue

The following adjustments were made by GSE in 2013, with the impact on the filing noted by Audit:

Accounts Receivable	Filing reduced by credit of	$395,400
Materials and Supplies	Filing increase by debit of	$4,793
Prepayments	Filing increased by debit of	$3,228
Accrued Revenues and Other	Filing reduced by credit of	$168,995
Deferred Debits	Filing decreased by credit of	$820
Goodwill	Filing increased by credit of	$79,407
Accounts Payable	Filing reduced by debit of	$170,901
Accrued Expenses	Filing reduced by debit of	$309,429
Deferred Credits	Filing reduced by debit of	$156,271

Recommendation

The Company should have conducted the review of accounts and related balances prior to filing the rate case.

Company Response

The implication of the recommendation is there would have been a material impact on the filing if the final balances listed above had been used. This is not the case for the following reasons:

- All but two of the accounts listed are either not included in rate base or the amounts were removed from the final rate base calculation.

- The two accounts that are included in rate base are Materials and Supplies and Prepayments. The Materials and Supplies account is addressed in Audit Issue #9 and shows there is no discrepancy.
- The Prepayments amount used in the proforma rate base is a 5 quarter average. The rate case credit adjustment of ($1,178,738) would increase by ($646) ($3,228 X 20%).

Audit Conclusion

The Company comment is appreciated. However, the issue was documented to inform the Commission Staff that several accounts within the filing were adjusted after the filing was made.

Audit Issue # 3

Lack of Complete Financial Statement

Background

The filing prepared by GSE for the test year ended 12/31/2012 complied with a variety of requirements of the PUC. Full financial statements for the test year, as required by Puc 1604.01(a)(1)b, were not included. FERC granted an extension to 7/31/2013 for the filing of the 12/31/2012 Form 1. Audit was informed (on 8/13/2013) that the annual report was filed with the PUC August 2, 2013.

Issue

The filing does not include any income or expense accounts "below the line". Audit was therefore unable to determine the complete scope of revenues and expenses which should be included on the complete income statement for the Company.

Recommendation

Because of the timing of the rate case, a comparison to the final FERC Form 1 could not be conducted, and thus the integrity of the overall presentation of the financial information, from the filing to the general ledger could not be accomplished. Refer to Audit Issue #1

Company Response

The Company has filed a copy of the Granite State FERC Form 1 with the NH PUC.

Audit Conclusion

Audit concurs with the Company response and was informed on August 13, 2013, by the Staff of the Electric Division of the NHPUC, that the FERC Form 1 had been filed on August 2, 2013. Fieldwork relating to the audit began in mid-May and concluded on August 2, 2013.

Audit Issue #4

Continuing Property Records

Background

Audit requested plant additions retirements, transfers and adjustments by individual asset spanning years 2008 through 2012.

Issue

Information available for 2012 was promptly provided. Asset information for prior periods however, was not provided in a timely manner. The request for information was made on June 13, 2013 and the resulting information was provided July 18, 2013 after request was made from the Legal Staff at the PUC.

Recommendation

Requests for information promptly and legally made must be answered in a more timely manner. The audit focus is to ensure that the information on which the rate case is based is a fair and accurate reflection of the financial status of the Company.

Company Response

Plant additions, retirements, transfers and adjustments for the period 2008 through June 2012 were the responsibility of the former owner. Liberty Utilities made every effort to obtain the requested information in a timely manner.

Audit Conclusion

Audit was provided with the information over one month after the request was issued. Audit was not provided with the attempts made to obtain the requested information. However, the Company is reminded that responsibility for the information, on which the rate case is based, rests with Liberty Utilities.

Refer to audit issue #5

Audit Issue #5

Materials, Supplies, Equipment, Payroll, Costs of Removal, Retirements

Background

Audit requested the materials, equipment and supplies documentation, labor/payroll summaries for the plant additions and costs of removal for the several work orders spanning years 2008 through 2012.

Issue

Audit did not receive supporting documentation for materials, equipment or supplies, payroll registers or cost of removal and retirements.

Recommendation

The Company must be able to support all facets of plant costs.

Company Response

This request again has been referred back to National Grid and the information will be forwarded on to Audit as soon as it is received by Liberty Utilities.

Audit Conclusion

Audit reiterates the issue. The audit has concluded.

Audit Issue #6

Continuing Property Records

Background

Audit requested plant additions retirements, transfers and adjustments by individual asset spanning years 2008 through 2012.

Activity for the test year was listed by account and supported with detailed continuing property records for additions placed in service by National Grid.

Issue

The additions for the period after 7/2/2012 showed no asset detail to which the work orders could be verified.

All activity for the test year was listed by account only and showed no asset detail to which Audit could tie the tested work orders.

Recommendation

The Continuing Property Records must be maintained to comply with FERC.

Company Response

It appears that the Audit Staff did not notice there was a second tab in each file provided that listed each individual asset. The first tab was a pivot table by account that summarized the information. The files were in fact so large they were provided in separate emails.

Audit Conclusion

Audit reviewed each of the tabs included with the response to audit request #3 the Continuing Property Records (CPR's) showing used and useful additions, retirements, and account transfers for 2012. The Cost Summary Report provided showed activity only up to June 30, 2012. When reviewing the pivot tables and accompanying tabs, all activity was up to June 30, 2012 which originated from National Grid. No Liberty activity was provided.

Audit Issue #7

Work Order Summary Sheets

Background

Several work Order Summary sheets did not contain the location of the assets.

Issue

Work Order 0005962891 dated December, 2008 and totaling $124,023 did not show a location of the asset.

Work Order 0004810648 dated August, 2010 and totaling $5,336 did not show a location of the assets.

Work Order 990000003 dated May, 2012 and totaling $4,573 did not show a location of the asset.

Recommendation

The Company's work order records must reflect the assets' locations.

Company Response

All of the work orders for the dates listed above are from National Grid's records. The locations are as follows:

W/O 5962891 – Lowell Rd., Salem

W/O 4810648 – 27 Dunsinane, Lebanon

W/O 990000003 is a blanket work order under which meters are purchased. As meters are installed they are removed from the blanket and the location is specified.

Audit Conclusion

Audit concurs with the Company, and reminds the Company to update the work orders with the information noted, as necessary.

Audit Issue #8
Depreciation Expense

Background

The Company provided a rate schedule titled Granite State Electric Depreciation Rates showing the current depreciation rates by account number. These rates did not agree with the filing Schedule RR-5-6. Audit requested which rates are being used in the test-year and the Company provided the following responses;

> "*we are not using the rates shown. Verification of the rates we are using is the FERC Form 1. We filed the Granite State FERC Form 1 for 2012 this week (July31st).*"

Issue

Audit was not provided with individual asset additions or retirements therefore Audit was unable to ascertain the use of half-year convention for calculating depreciation expense.

Further, the Company was unable to provide the depreciation rates by plant account that support the depreciation expense for the test-year.

Recommendation

Audit was unable to confirm the depreciation expense for the test-year.

Company Response

Due to issues with the Great Plains Fixed Asset module the Company has been unable to add or retire assets. Due to this issue we have booked estimates that are reversing entries to reduce Construction Work in Progress.

The Company agrees that rates shown as current rates in the filing are not correct. This is an error in the filing. A copy of the FERC Form 1 was filed with the NH PUC and a copy of the FERC Form 1 page showing the correct rates was provided once this was brought to our attention. This should allow for verification of the test-year depreciation expense. Granite State has filed for updated depreciation rates.

Audit Conclusion

The Company response summarizes issues beyond that noted by Audit. The fixed asset module of the system must be corrected. Regarding the incorrect rates in the filing, Audit restates the issue for the test year, and reminds the reader of the timing of the FERC Form 1. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #9

Materials and Supplies

Background

The rate filing schedule RR-5-1reflects $415,932 for Materials and Supplies.

Issue

The general ledger total for the year reflected $414,405 for Materials and Supplies in account number 8830-2-0000-10-1380-1540, $1,527 less than the filing.

Recommendation

See Audit Issue #1 and #2 relating to the accuracy of the reported year-end balances.

Company Response

The filing includes the following accounts and amounts. The general ledger amount quoted above is only one of the accounts included in the filing and is the first one shown below. There is no discrepancy.

8830-2-0000-10-1380-1540	$414,405
8830-2-0000-10-1380-1542	<$6,320>
8830-2-0000-10-1380-1630	$ 0
8830-2-0000-10-1380-1631	$55,270
8830-2-0000-10-1380-1632	<$47,423>
Total	$415,932

Audit Conclusion

8830-2-0000-10-1380-1540 Plant Materials/Operating Supplies	$414,405	
8830-2-0000-10-1380-1542 Obsolete Inventory Reserve	<$6,320>	
On RR-4 as PrePaids-should be Inventory	$408,084	
8830-2-0000-10-1380-1630 Stores Undistributed	$ 0	
8830-2-0000-10-1380-1631 Stores Clearing Debits	$55,270	
8830-2-0000-10-1380-1632 Stores Clearing Credits	<$47,423>	
On RR-4 Stores	$ 7,848	
Total Materials and Supplies per RR-5		$415,932

Audit agrees that schedule RR-5 is comprised of the misnamed Prepaids $408,084 and the total of the three Stores accounts $7,848, as noted on schedule RR-4 and discussed in the text of this report.

Audit Issue #10
Bidding Capital Construction

Background

The Company has no published bidding policy at this time.

Issue

The Company should have a formal policy for bidding large projects with copies of the RFPs and to include subsequent changes in project scope, bidding details of high and low bidders and historical records of all previous bids. Audit selected three projects and the respective mailing list of bidders. The list was not provided.

Recommendation

The Company should document the procedures to us in the bidding process.

Company Response

Being a new company, to date a published bid policy has not been formalized. It should be noted that even with no formal policy, the NH Purchasing Department works with Electric Operations & Engineering in the development of Requests for Proposal specifications, inviting suppliers to bid, performing bid analysis, reviewing submitted bid responses to ensure a match with project schedules, and awarding contracts based on the supplier's ability to meet the bid criteria.

During 2012 & 2013, Liberty initiated a number of Requests for Proposal (RFP's) for large capital projects to support Granite State Electric's operations. These included Michael Avenue Charlestown NH Civil Engineering construction, Michael Avenue Charlestown NH Overhead Line Construction, Hanover 6 Substation Civil Engineering Work, Pond St Salem NH Overhead Line Construction, Lebanon NH 3rd party Attachment construction, Lebanon-Enfield Tree Trim work, and Lebanon-Enfield 7.5 mile feeder line overhead line and pole installation. Bidders are selected from a pool of suppliers with whom we have some knowledge or experience. In addition, we assumed contracts from National Grid that had been in effect at the time of the sale of Granite State Electric. Although we do not have a formal policy for issuance of RFQ's at this time, we strive to ensure that all major projects and purchases are competitively bid to the market.

Audit Conclusion

Audit appreciates the input from the Company regarding the steps taken by the Purchasing Department in conjunction with the Electric Operations & Engineering group. However, while Liberty Utilities, NH is a new company, Granite State Electric is not. Liberty Utilities NH should be able to use and rely on the established policies and procedures in use by the Company, or obtain and adjust as needed, policies and procedures used by other Algonquin companies.

Audit Issue #11
Deferred Debits

Background

The filing schedule RR-4 reflects total deferred debits of $28,325,234.

Issue

The general ledger accounts combined for a total of $28,773,234. The variance of $448,000 was identified by Audit to be an adjusting entry made to the general ledger but not to the filing. Audit identified all of the adjusting entries below, with the exception of the $0.42 noted as journal entry #47165.

Recommendation

12/31/2012	34040	GSE Qualified Pens	8830-2-0000-30-3800-2190	$ 904,645.00	
12/31/2012	34040	GSE Qualified Pens	8830-2-0000-10-1930-1826	$ 353,502.00	
12/31/2012	34040	GSE Qualified Pens	8830-2-0000-20-2910-2541	$ 170,465.00	
12/31/2012	34040	GSE Qualified Pens	8830-2-0000-20-2760-2535		$ 983,173.00
12/31/2012	34040	GSE Qualified Pens	8830-2-0000-69-5043-9260		$ 445,439.00
12/31/2012	34041	GSE ESRP	8830-2-0000-10-1930-1826	$ 1,998.00	
12/31/2012	34041	GSE ESRP	8830-2-0000--20-2760-2536	$ 3,504.00	
12/31/2012	34041	GSE ESRP	8830-2-0000-69-5043-9260		$ 5,502.00
12/31/2012	34042	GSE Non-qualified Pens	8830-2-0000-10-1930-1826	$ 4,000.00	
12/31/2012	34042	GSE Non-qualified Pens	8830-2-0000-20-2760-2536	$ 6,000.00	
12/31/2012	34042	GSE Non-qualified Pens	8830-2-0000-75-7450-4262		$ 10,000.00
12/31/2012	34043	GSE Qualified OPEB	8830-2-0000-30-3800-2190	$ 327,367.00	
12/31/2012	34043	GSE Qualified OPEB	8830-2-0000-10-1930-1826	$ 88,500.00	
12/31/2012	34043	GSE Qualified OPEB	8830-2-0000-20-2910-2541		$ 32,946.00
12/31/2012	34043	GSE Qualified OPEB	8830-2-0000-20-2760-2538		$ 584,163.00
12/31/2012	34043	GSE Qualified OPEB	8830-2-0000-69-5043-9260	$ 201,242.00	
12/31/2012	34047	OPEB benefits pd reclass	8830-2-0000-69-5043-9260		$ 69,383.18
12/31/2012	34049	push down retiree ben pmnts	8830-2-0000-20-2760-2538	$ 115,638.63	
12/31/2012	34054	IS:A8810, journal:34047 OPEB benefits pd recls	8830-2-0000-20-2810-2606	$ 69,383.18	
12/31/2012	34056	IS A8810. journal:34049 push down retiree ben pmnts	8830-2-0000-20-2810-2606		$ 115,638.63
12/31/2012	36168	Misc JE #24-legal accrual	8830-2-0000-20-2930-2280		$ 190,000.00
12/31/2012	36168	Misc JE #24-legal accrual	8830-2-0000-69-5280-9250	$ 190,000.00	
12/31/2012	36349	Accrue LNS invoice	8830-2-0000-20-2110-2420		$ 326,567.55
12/31/2012	36349	Accrue LNS invoice	8830-2-0000-20-2142-2424	$ 326,567.55	
12/31/2012	36349	Accrue LNS invoice	8830-2-0000-51-5441-5650	$ 326,567.55	
12/31/2012	36349	Accrue LNS invoice	8830-2-0000-40-4210-4561		$ 326,567.55
UNKNOWN	47165	Plant Materials and Operating Supplies	8830-2-0000-10-1380-1540		$ 0.42
UNKNOWN	47165	Stores Expense Undistributed	8830-2-0000-10-1380-1630	$ 0.42	
				$ 3,089,380.33	$ 3,089,380.33

The filing does not incorporate any of the entries above, and should thus be adjusted.

Company Response

The filing was submitted before the FERC Form 1 was prepared and before the final closing entries for 2012 were posted. Schedule RR-4 reflects Deferred Debits (line 17) and Deferred Credits (line 43) on the books of the Company at the time the filing was prepared.

The rate base on which the revenue requirement is computed does not include any amount for the Deferred Debits or Deferred Credits on the books of the Company. As shown on Schedule RR-5, all Deferred Debits and Deferred Credits on the books of the Company are eliminated. The only Deferred Debit or Deferred Credit included in rate base is the Accumulated Deferred Income Tax Credit, computed separately on a regulatory basis (Schedule RR-5-5).

Therefore this difference has no impact on the revenue requirement.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the rate base impact noted by the Company. However, the audit was conducted on the complete books and records of the Company. The issue is reiterated.

Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #12

New Debt Recorded under Incorrect FERC Account

Background

The Company issued new long-term debt on 12/21/2013 in the form of four promissory notes payable to its affiliate, Liberty Utilities. The notes mature in 5, 10 and 15 years.

Issue

The Company recorded the new promissory notes to FERC accounts #2548, #2549, #2550 and #2551 which are classified under FERC as deferred credits – #254, Other Regulatory Liabilities and #255, Accumulated Deferred Investment Tax Credits rather than long-term debt.

Recommendation

Audit recommends that the new debt now recorded under #2548, #2549, #2550, #2551 be moved to the FERC long-term debt account #223, Advances from associated companies, being sure to record each debt separately (2231, 2232, 2233, 2234).

Company Response

The Company agrees with this recommendation.

Audit Conclusion

Audit concurs with the Company response.

Audit Issue #13

Failure to Comply with Commission Order

Background

The Commission issued Order No. 25,370 (docket DG 11-040) authorizing the issuance of the new debt subject to Staff's review of the final terms.

Issue

The Company failed to provide the promissory notes to PUC Staff for approval before finalization.

Recommendation

The promissory notes (original and revised and amended) must be submitted into docket DG 11-040.

Company Response

The Company agrees with this recommendation.

Audit Conclusion

Audit concurs with the Company's response. Audit verified that on August 1, 2013 Granite State submitted into docket DG 11-040 both the amended and restated promissory notes and the original promissory notes for Granite State and EnergyNorth.

Audit Issue #14

Inaccurate Promissory Notes

Background

The Company was authorized by the Commission to issue new long-term debt. The Company provided a draft of the promissory notes to be issued that stated the interest rates for the Granite State promissory notes would be equal to the Liberty Notes.

Issue

The Granite State executed promissory notes reflected higher interest rates than the Liberty Notes.

After several audit requests for clarification of the interest rates, the Company provided Audit with amended and executed promissory notes.

Recommendation

The Company submitted amended and revised promissory notes that now reflect the same rates as the Liberty notes.

The Company must ensure that all debt instruments into which it enters, comply with the terms discussed and approved by the Commission.

Company Response

The Company concurs with Audit's discussion above.

Audit Conclusion

Audit concurs with the Company's response. Audit verified that on August 1, 2013 Granite State submitted into docket DG 11-040 both the amended and restated promissory notes and the original promissory notes for Granite State and EnergyNorth. The amended and restated promissory note rates are equal to the rates payable on the series A senior notes issued by Liberty Utilities Finance GP1.

The Company is reminded that prior to executing any long term legal debt instrument, the terms must comply with the Commission's Order.

Audit Issue #15
Long-term debt intercompany interest calculation

Background

The Company issued new intercompany long-term debt on 12/21/2012.

Issue

Audit compared the Company's interest calculation to the original promissory notes and asked the Company why the calculation used 3.86% as an interest rate for the $3.4M 5 year note when the promissory note indicated 3.68%. The company explained that it appeared to be an error and that the calculation would be corrected. The calculation and the Company's books would need to be further revised to reflect the corrected rates on the amended and restated promissory notes. No revised journal entries or calculations were provided by the Company.

Audit also asked the Company why the interest calculation computed interest using 366 days when the promissory note states that interest will be computed on the basis of a 360-day year. The Company explained that it appeared to be an error and that the 360 day year should be used. The amended and revised notes also indicate that 360-day year shall be used.

Recommendation

The Company must correct its 2012 and 2013 books and records to reflect the corrected terms of the intercompany debt.

Company Response

The recalculated 2012 interest expense is on the amended and restated Notes is $22,610.41, resulting in a reduction of $2,194.90 from the currently recorded expense of $24,805.31. The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing). The 2013 interest expense based upon the amended and restated notes will be $752,310.10. Interest expense is not included as part of the calculation of rate base and therefore has no impact on the revenue requirement.

Audit Conclusion

Audit attempted to verify the recalculated 2012 interest provided in the Company's response. Despite the amended and restated promissory note terms indicating that the interest on the notes will be calculated on the basis of a 360-day year, the Company calculated the 2012 interest based on 366 days. Audit reiterates the issue that the Company needs to correct its books and records to comply with the terms of the corrected notes.

Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #16

Debt and Other Liabilities

Background

Within the accrued expense totaling $12,438,371 of schedule RR-4 of the filing, the following general ledger accounts are noted:

8830-2-0000-20-2116-2371	Int Accr-LTD	($142,792)
8830-2-0000-20-2116-2373	Int Accr-M Pool-Assoc	($61)
8830-2-0000-20-2142-2420	Curr&Accr Liab-TDI Reimb	$1,002
		($141,851)

Issue

National Grid reflected an ending credit balance of $142,792 as of 6/30/2012 in account #237002, Interest Accrued-LTD. Liberty/GSE recorded a beginning credit balance of $148,870 in account # 8830-2-0000-20-2116-2371, Interest Accrued-LTD.

Recommendation

It appears that the ending balance from NGrid, which should have tied to the beginning balance of LU/GSE, should have been adjusted otherwise the beginning balance reflected on the LU/GSE accrual is overstated.

Company Response

National Grid's ending balance in FERC account 237002 was $148,870 as of the July 2, 2012 date of the company sale. National Grid accrued 2 days of interest expense for July 1 & 2 for a total of $6,077.96, which is the cause of the difference discussed above. Please see the attached reconciliation.

Audit Conclusion

After reviewing the reconciliation, it appears that the discrepancy between the National Grid ending balance and the LU/GSE beginning balance resulted because Audit was provided with the National Grid general ledger as of 6/30/2012. Additional activity occurred between 6/30/2012 and 7/220/12 which was not reflected on the 6/30/12 National Grid general ledger. The reconciliation provided by the Company confirms that the ending balance on National Grid's general ledger as of 7/2/2012 was $148,870.

Audit Issue #17

Revenue

Background

Overall operating revenue per the filing schedule 1604.04 (a)(1)a.b., Attachment 1 page 5 of 12 identified specific revenue types which sum to $77,756,745

Issue

Audit verified the total revenue to the adjusted general ledger (refer to Audit Issue #1). The specific breakdown by account to the line items in the filing could not be accomplished for the Distribution, Border/Fairpoint, Miscellaneous revenues. In total the $24,202,147 was verified to two National Grid accounts and two Liberty accounts.

The "Miscellaneous" revenue portion of the distribution section of the filing, in the amount of $166,926 could not be distinguished from within the four general ledger accounts reviewed.

Recommendation

The breakdown of the reported revenues noted in the 1604.04 portion of the Company's filing is inaccurate. In addition, the response to Staff data request does not appear to include all of the information noted on the general ledger. Clarification from the Company for the reflection of the dollars in the manner presented in the filing, indicated that there were "mapping" issues.

Company Response

Please see reconciliation of the 1604.04(a)(1)a.b., Attachment 1, page 5 of 12, balances to the GSE December 31, 2012 FERC Form 1, in Attachment 1.

Granite State Electric Company
Reconciliation of RR2-1 to the FERC Form 1

		Entry not on		Total per	FERC	FERC Form 1 Page 300				
Description	1604.04(a)(1)(a.b.	1604.04	Reclass	Form 1	Account	Line 21	Line 17	Line 16	Line 19	Line 14
Distribution	$ 23,869,650	$ -	$ 332,497	$ 24,202,147	451020&456020	$ 21,567,042	$ 2,635,105	$ -	$ -	$ -
Commodity	$ 36,665,612	$ 143,222	$ -	$ 36,808,834	440000-449130	$ -	$ -	$ -	$ -	$ 36,808,834
Transmission	$ 15,218,970	$ 326,567	$ -	$ 15,545,537	456010	$ 15,545,537	$ -	$ -	$ -	$ -
Forfeited Discounts	$ 117,251	$ -	$ -	$ 117,251	450000	$ -	$ -	$ 117,251	$ -	$ -
Misc. Service Revenue	$ 303,243	$ -	$ (67,543)	$ 235,700	451000	$ -	$ 235,700	$ -	$ -	$ -
Open Access Rent DSM	$ -	$ -	$ 67,543	$ 67,543	451010	$ -	$ 67,543	$ -	$ -	$ -
Rent Electric Property	$ 283,642	$ -	$ -	$ 283,642	454000	$ -	$ -	$ -	$ 283,642	$ -
Other Revenue	$ 965,880	$ -	$ -	$ 965,880	456005,456040,456505	$ 965,880	$ -	$ -	$ -	$ -
Border Sales	$ 18,033	$ -	$ (18,033)	$ -						
Fairpoint Revenue	$ 147,538	$ -	$ (147,538)	$ -						
Miscellaneous Revenue	$ 166,926	$ -	$ (166,926)	$ -						
	$ 77,756,745	$ 469,789	$ -	$ 78,226,534		$ 38,078,459	$ 2,938,348	$ 117,251	$ 283,642	$ 36,808,834

Audit Conclusion

Audit incorporated the Attachment 1 into the Company's response. While the reconciliation provides a mapping of the filing revenue types to the FERC Form 1, the Miscellaneous Revenue balance remains unexplained, the filing figure for Fairpoint could not be verified to the general ledger (see Audit Issue #18), and the Border sales noted in the filing could not be verified to the general ledger (see Audit Issue #19).

The reader is reminded of the filing date of the FERC Form 1, 8/2/2013.

Audit Issue #18

Fairpoint Tree Trimming Revenue

Background

Revenue related to the Fairpoint/Tree Trimming was noted in the filing to be $147,538.

Issue

Audit verified the total revenue to the National Grid account #456020 and the Liberty account #8830-2-0000-40-4210-4563 for a total for the test year of $599,867.

Recommendation

As noted in Audit Issue #17, the identification of specific revenue types per the filing does not match the general ledger detail.

Company Response

Please see reconciliation of the 1604.04(a)(1)a.b., Attachment 1, page 5 of 12, balances to the GSE December 31, 2012 FERC Form 1, in Audit Issue #18 - Attachment 1.

Granite State Electric Company										
Reconciliation of RR2-1 to the FERC Form 1										
		Entry not on		Total per	FERC	FERC Form 1 Page 300				
Description	1604.04(a)(1)(a.b.	1604.04	Reclass	Form 1	Account	Line 21	Line 17	Line 16	Line 19	Line 14
Distribution	$ 23,869,650	$ -	$ 332,497	$ 24,202,147	451020&456020	$ 21,567,042	$ 2,635,105	$ -	$ -	$ -
Commodity	$ 36,665,612	$ 143,222	$ -	$ 36,808,834	440000-449130	$ -	$ -	$ -	$ -	$ 36,808,834
Transmission	$ 15,218,970	$ 326,567	$ -	$ 15,545,537	456010	$ 15,545,537	$ -	$ -	$ -	$ -
Forfeited Discounts	$ 117,251	$ -	$ -	$ 117,251	450000	$ -	$ -	$ 117,251	$ -	$ -
Misc. Service Revenue	$ 303,243	$ -	$ (67,543)	$ 235,700	451000	$ -	$ 235,700	$ -	$ -	$ -
Open Access Rent DSM	$ -	$ -	$ 67,543	$ 67,543	451010	$ -	$ 67,543	$ -	$ -	$ -
Rent Electric Property	$ 283,642	$ -	$ -	$ 283,642	454000	$ -	$ -	$ -	$ 283,642	$ -
Other Revenue	$ 965,880	$ -	$ -	$ 965,880	456005,456040,456505	$ 965,880	$ -	$ -	$ -	$ -
Border Sales	$ 18,033	$ -	$ (18,033)	$ -						
Fairpoint Revenue	$ 147,538	$ -	$ (147,538)	$ -						
Miscellaneous Revenue	$ 166,926	$ -	$ (166,926)	$ -						
	$ 77,756,745	$ 469,789	$ -	$ 78,226,534		$ 38,078,459	$ 2,938,348	$ 117,251	$ 283,642	$ 36,808,834

Audit Conclusion

Audit incorporated the Attachment 1 into the Company's response. While the reconciliation provides a mapping of the filing revenue types to the FERC Form 1, the Miscellaneous Revenue balance remains unexplained, (see Audit Issue #17) the filing figure for Fairpoint still cannot be verified to the general ledger, and the Border sales noted in the filing could not be verified to the general ledger (see Audit Issue #19). The reader is reminded of the filing date of the FERC Form 1, 8/2/2013.

Audit Issue #19

Border Sales

Background

The noted Border/Fairpoint revenue $165,571 was identified to Staff via DR1-12, as: Fairpoint $147,538, Border $18,033.

Issue

Border sales noted to be $18,033 were verified to seven general ledger accounts for a total of $21,476.

Audit also noted that one customer charge only was associated with the billing reconciliation. While Audit understands that GSE and MECO signed the sales agreement, reference to one customer charge as opposed to each individual customer charges was not specified in the attachment outlining the charges.

Recommendation

As identified in Audit Issues #17 and #18, the reported revenue for the Border Sales is not that which is noted in the general ledger.

The number of customer charges and the amount or amounts should be specifically stated in the agreement.

Company Response

The amount of Border sales listed in the schedule 1604.04(a)(1)a.b., Attachment 1 page 5 of 12, is incorrect.

Please see the reconciliation of the 1604.04(a)(1)a.b., Attachment 1 page 5 of 12, amounts to the GSE December 31, 2012 FERC Form 1 in Audit Issue #18 - Attachment 1.

Granite State Electric Company
Reconciliation of RR2-1 to the FERC Form 1

		Entry not on		Total per	FERC	FERC Form 1 Page 300				
Description	1604.04(a)(1)(a.b.	1604.04	Reclass	Form 1	Account	Line 21	Line 17	Line 16	Line 19	Line 14
Distribution	$ 23,869,650	$ -	$ 332,497	$ 24,202,147	451020&456020	$ 21,567,042	$ 2,635,105	$ -	$ -	$ -
Commodity	$ 36,665,612	$ 143,222	$ -	$ 36,808,834	440000-449130	$ -	$ -	$ -	$ -	$ 36,808,834
Transmission	$ 15,218,970	$ 326,567	$ -	$ 15,545,537	456010	$ 15,545,537	$ -	$ -	$ -	$ -
Forfeited Discounts	$ 117,251	$ -	$ -	$ 117,251	450000	$ -	$ -	$ 117,251	$ -	$ -
Misc. Service Revenue	$ 303,243	$ -	$ (67,543)	$ 235,700	451000	$ -	$ 235,700	$ -	$ -	$ -
Open Access Rent DSM	$ -	$ -	$ 67,543	$ 67,543	451010	$ -	$ 67,543	$ -	$ -	$ -
Rent Electric Property	$ 283,642	$ -	$ -	$ 283,642	454000	$ -	$ -	$ -	$ 283,642	$ -
Other Revenue	$ 965,880	$ -	$ -	$ 965,880	456005,456040,456505	$ 965,880	$ -	$ -	$ -	$ -
Border Sales	$ 18,033	$ -	$ (18,033)	$ -						
Fairpoint Revenue	$ 147,538	$ -	$ (147,538)	$ -						
Miscellaneous Revenue	$ 166,926	$ -	$ (166,926)	$ -						
	$ 77,756,745	$ 469,789	$ -	$ 78,226,534		$ 38,078,459	$ 2,938,348	$ 117,251	$ 283,642	$ 36,808,834

Audit Conclusion

Audit incorporated the Attachment 1 into the Company's response. While the reconciliation provides a mapping of the filing revenue types to the FERC Form 1, the Miscellaneous Revenue balance remains unexplained, (see Audit Issue #17) the filing figure for Fairpoint still cannot be verified to the general ledger, (see Audit Issue #18) and the Border sales noted in the filing could not be verified to the general ledger.

The Company indicated that the Border Sales figure included in the filing is incorrect but did not provide an accurate figure. Audit reiterates the issue above.

The reader is reminded of the filing date of the FERC Form 1, 8/2/2013

Audit Issue #20

Wholesale Transmission

Background

The filing presented Wholesale Transmission in the amount of $15,218,970. The detailed general (pivot tables for National Grid and Liberty) reflected a year to date revenue total of $15,545,537. A variance of $326,567 was identified between the two.

Issue

Audit requested clarification of the variance. (Refer to Audit Issue #1). The Company noted that the variance "*was caused by a December Local Network Service invoice from New England Power Company, received late due to National Grid's billing issues at the time. Since the cost was pass through and wouldn't have any P&L impact, it was decided that the expense and revenue offset would be booked in December 2012*."

A request for the invoice was not answered.

Recommendation

Refer to Audit Issue #1. Based on the response above, it appears that the revenue in the filing is understated and the associated expense is also understated. Audit concurs that as a flow through, there is no impact on the base rate request. However, the filing amount does not agree with the general ledger.

Company Response

The Company concurs with the Audit recommendation that this difference has no impact on the revenue requirement.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #21
Temporary Service

Background

Audit noted eighteen instances of revenues in the amount of $240 posted to account 8830-2-0000-40-4210-4560 (Liberty) representing Temporary Service connection charges. Also noted in both the National Grid account #456040 and the Liberty account above, were revenues received from Contributions in Aid of Construction (CIAC) jobs, in the amount of $32,645.

Issue

The Company's tariff, original page 7, states that the fee for temporary service will for the customer "to pay the full amount of the estimated cost of installing and removing the requested connection…"

Recommendation

In response to a request for the $240 cost estimate, the Company noted that the cost was set several years ago (1998) at an estimate to install a temporary service, including a meter and service drop. Based on the timeframe, the estimate is likely lower than it should be, thus causing the customer cost to be less than the offsetting expenses incurred to install the temporary service. Audit cannot quantify the amount of the net under-collection over the years.

It is recommended that the Company perform a calculation based on current cost estimates, and update the fee assessed.

Company Response

The Temporary Service tariff below dates to 1998. The fee ($240), which is dated, was determined at the time to be a fair approximation of the cost of a simple temporary service, which includes a meter and service drop. For more complex temporary service requests, an actual cost estimate is developed on a per customer basis. The Tariff reads as follows:

8. TEMPORARY SERVICE

Temporary service is service which will not continue for a sufficient period to yield the Company adequate revenue at its regular rates to justify the expenditures necessary to provide such service. It shall be the Company's policy to require Customers seeking Temporary Service to pay the full amount of the estimated cost of installing and removing the requested connection, less estimated salvage value, in advance of the installation by the Company of the connection. In additional, the Customer will be required to make payments for electricity at the regular rates. The estimated cost and salvage shall be determined solely by the Company which shall exercise good faith in making such determinations.

Audit Conclusion

Based on the Company response, Audit reiterates the issue and the recommendation that the $240 dated standard temporary service estimate be reviewed and revised to more accurately reflect the stated tariff.

Audit Issue #22

CIAC Revenue

Background

Account 8830-2-0000-40-4210-4560 (Liberty) and National Grid account #456040 also reflect revenues received from Contributions in Aid of Construction (CIAC) jobs, in the amount of $32,645.

Issue

Revenue received for jobs the customer is being asked to fund does not comply with the tariff. Refer to the tariff, original page 31.

Recommendation

Audit understands that the Company's Sales staff negotiates jobs with customers. However, calculated costs to the customer must comply with the terms of the tariff and cannot include revenue not included in the formula.

Company Response

The Company acknowledges that the formula language in the Tariff is dated and has proposed changes in DE 13-063 (see testimony of William T. Sherry, Attachment WTS-2, pages 24-25, section IV. Payment Required). Given the formula as indicated in the tariff pre-dates electric industry re-structuring in New Hampshire, and there were no pending activities before the NHPUC to revise the Tariff, the Company developed internal tools, such as the attached worksheet, to more accurately reflect electric industry market conditions and costs. These tools were developed to ensure company sales staff was dealing with customer requests on a consistent basis.

Liberty Utilities

Construction Advance for:
C&I - O/H extension to cust owned primary U/G on private property
for Joseph Leone

Date: 9-Aug-13

Policy # 3

Name: Joseph Leone
Mailing Address: 1429 Great Pond Road, North Andover, MA 01845
Cust. Rate: G2

Service/Development Name & Address: Quarrybrook, 39 Roulston Road, Windham, NH

WR # : 14939944
No. of meters at this rate: 1
Orig. Dept. = 0
Project = 0
Business Service Specialist/Account Manager: Mark Camasso
Work Order# = 014939944

INCREMENTAL LOAD & REVENUE SECTION -- For policies 1 & 2. Information can be entered here for information purposes only

1. Will this construction result in the customer having a brand new account? (Y or N)	Y	<== If this is a second service, enter "N" here!
2. What % of the load you entered will, in your opinion, be off peak (G-3 only)?	0.00%	
3. What % of the load you entered will, in your opinion, materialize in the first 12 months	100.00%	

	Calculated 12 Months (from New Load sheet)	Manually Estimated 12 Months
12 Months Est. Billing Demand	1,049.3	0
Total Est. Annual kWh	272,105.0	0

D = Total Annual Distribution Co. Revenue --------> $5,672.18 To see Revenue, fill in 1-3 above
Cust. Chg.+Dist. kW+Dist. kWh @: GSECo Rates 01/2007

CONSTRUCTION COSTS

	Construction Costs:	Added Service Non-Standard Costs (2)	Total Cost:
Plant Addition Costs	$25,622.79	$0.00	$25,622.79
Transfer Costs	$0.00	$0.00	$0.00
Meter Costs	$0.00	$0.00	$0.00
Relocation Costs	$0.00	$0.00	$0.00
O&M Costs	$1,047.95	$0.00	$1,047.95
Removal Costs	$1,146.51	$0.00	$1,146.51
Total	$27,817.25	$0.00	$27,817.25
VALUE of Donated Property	$0.00	$0.00	$0.00

Total Cost of Standard Svc. subject to Rev. Justification (1)
$27,817.25

REVENUE JUSTIFICATION / CONSTRUCTION ADVANCE FORMULA SECTION

Where: A = C - [(R - W) / c]

C = Construction costs subject to revenue justification (1)	=	$27,817.25	
R = the estimated annual revenue less cost of fuel	=	$5,672.18	Cust. Chg.$ + Dist.kw$ + Dist.kwh$
W = the estimated annual wholesale cost of power less cost of fuel	=	0.0	
c = Annual Carrying Charge	=	25.41%	
Credit for Revenue =	=	$22,322.63	
A = Construction Advance	=	**$5,494.62**	

STANDARD OVERHEAD

Overhead - Single Phase:

Number of Feet needed to serve the cust:	0
Allowance	300
Number of feet over allowance	0
Cost/ft for feet in excess of the OH Allowance	$0.04
Subtotal	$0.00

Overhead - Three Phase on Public Way:

Number of Feet needed to serve the cust:	0
Allowance	300
Number of feet over allowance	0
Cost for feet in excess of the OH Allowance	$0.00
Monthly payment	$0.00

UNDERGROUND RESIDENTIAL DEVELOPMENT

Cost of equivalent overhead line extension	$0.00
Cost of underground line extension	$0.00
Customer costs for Underground	$0.00

OTHER

Equivalent Overhead System:

Cost of overhead line extension	$0.00
Length of overhead line extension	0
Number of customers:	0
Overhead footage allowance	0
Overhead cost:	$0.00
Cost to Customer:	$0.00

Underground Single Home only:

Cost of underground line extension	$27,817.25
Underground footage	0
Allowance	300
Excess Footage	0
Underground Cost	$0.00
Additional Overhead Costs to reach site:	$0.00
Total Cost	$0.00

RESULTS SECTION

Customer Advance Calculations:

Initial Cust Advance	=	$5,494.62
Non-standard Service Costs	=	$0.00
Final Calculated Customer Advance	=	**$5,494.62**

AMOUNT DUE: $5,494.62

T:\AppData\Load_Estimator\Prod\703~Windham~39 Roulston Road~Quarrybrook or El-Hefni Fndn~WR 14939944.xls 8/9/2013 8:17 AM

Audit Conclusion

Audit reiterates the issue and advises the Company to request a revision to the tariff.

Audit Issue #23

Rate D Tariff Violation

Background

Audit performed a tariff test using eleven specific customers. Invoices for the period October through December were included in the review, and encompassed five rate classes.

Issue

Five rate D customers' invoices were part of the test performed. One of the five was charged $0.0165 on the first 208 kWh and $0.04295 on the remaining 580 kWh. The tariff indicates the split is $0.0165 on the first 250 kWh.

A Company representative indicated that "*the bill period is considered a short primary in New England. A normal primary in NE is 26-36 days. If you take the consumption for the first step, 250 and divide it by 30 (using 30 days as the standard) then multiply it by 25 days it comes out to be the 208*."

Recommendation

The Company must comply with the terms of the tariff. The explanation above did not address the overcharged amount which resulted to the customer.

The tariff test of five rate D customers resulted in an error rate of 20%. The Company must ensure that all customers are charged the rates outlined in the tariff. Audit cannot quantify the total impact of the "short NE primary".

Company Response

The Company disagrees with Staff's finding on this issue. The Company has complied with the terms of its Tariff and with the accepted billing practices for non-standard billing period duration employed by all of the utilities in the state. The rates in the Company's Tariff are set forth on the basis of a standard billing period of 26 through 36 days. For billing periods outside of this range, any charge based on the standard billing period, such as a customer charge or a blocked energy charge, must be adjusted to compensate for the non-standard period, which may be either longer (37 days or more) or shorter (25 days or less). Failure to do this would result in customers with a billing period duration outside of the standard range paying either too much or too little compared to customers with a billing period within the standard ranges.

In the specific instance cited in the Issue above, the billing period was 25 days, which results in a proration factor of 25 days / 30 days or 0.8333. Thus, Rate D's customer charge of $4.36 per month was adjusted as follows: $4.36/month x 0.8333 = $3.63/25d-period. And Rate D's initial block energy charge of 250 kWh/month was adjusted as follows: 250 kWh/month x 0.8333 = 208 kWh/25d-period. The prorating procedure results in this customer paying 83.33% of the billing amount he would have paid had he used electric service for a nominal 30-day billing period at the same average daily consumption rate. In other words, the customer used 83.33% of a normal month's service, so his bill should be 83.33% of a normal month's bill.

All utilities use this proration procedure for long or short bills. Any other process, such as that suggested by Staff, would result in an inequitable result for both the customer and the Company.

Audit Conclusion

Audit restates the issue. The Company controls the timing of meter readings and thus billings. The proration of any part of any customer invoice is not specified in any of the electric utility tariffs in the State of New Hampshire.

Audit Issue #24
Accounts Receivable

Background

The rate filing reflects a total accounts receivable balance of $10,194,712. Of the seventeen receivable accounts which comprise the total, Audit was told that one, account 8830-2-0000-10-1101-1425, CSS, represents customer receivables. The balance in the account at year end was **$8,001,801**.

Issue

Audit was provided with the Accounts Receivable reconciliation, prepared by National Grid using National Grid account numbers. The reconciliation sums to **$8,751,741.**

Audit requested clarification of the $749,940 variance between the Liberty general ledger and the reconciliation provided, and was informed that "*an analysis is performed monthly to tie the CSS and Great Plains Accounts Receivable balances. Grid also had a timing variance related to cash received after CSS closed. We want to eliminate the timing variance since we are moving to the Cogsdale system from CSS next year.*"

The CSS billing system aged receivable pivot table detail reflected a different total for the end of the year of $**8,669,397**.

Recommendation

The explanation received regarding the variance does not address the variance. Audit is unable to validate what the actual Accounts Receivable balance is at year end, as we were provided with three distinctly different figures.

Company Response

Please see Attachment 1: The reconciliation of the CSS Detailed Customer AR List and the CSS AR balance. Also see the attached CN640 report as support.

Please see Attachment 2: The reconciliation of the CSS AR balance and Great Plains AR.

The attachments should be reviewed together with the CSS AR Reconciliation and the CSS Detailed AR listing already provided to the audit.

Audit Conclusion

Audit reviewed the attachments provided. The December AR/CSS monthly reconciliation, prepared by the GSE Accountant and approved by the Finance Director, noted the $8,001,801 as the beginning balance with the subsidiary ledger to which it was being reconciled, listed as **$8,752,190**. This figure does not tie to any of the three noted above.

Audit Issue #25

Customer Deposits and related interest

Background

GSE charges customer deposits, according to the tariff. The total deposits held at year end amount to $667,231. Interest at 3.25% was noted in the filing to be **$36,499.**

Issue

Audit requested the listing of customer deposits. A more detailed listing was requested. A full listing was ultimately provided from National Grid, including customer deposit, date, and annual interest. The report, 1,949 lines long, reflected total interest of **$32,184**.

The combined National Grid and Liberty customer deposit interest general ledger accounts sum to **$32,853**.

Recommendation

Audit was provided with three source documents, each reflecting three different interest totals. Without recalculating the interest associated with each of the almost two thousand customer deposits provided, the true interest expense is unknown.

The Company must ensure that the interest calculations and postings to accounts or refunding to customers complies with all terms of the PUC rules relating to Customer Deposits, 1203.03.

Company Response

The Customer Deposit Interest balance of $36,499 supplied in the filing was incorrect, as is the Audit amount, $32,184 and the information taken from the schedule provided by National Grid, $32,853. The amount of interest expense posted to the general ledger for the test year was **$21,448,** which was calculated by multiplying the monthly average outstanding security deposit balance by the monthly fraction of the annual deposit interest rate (3.25%). This is consistent with how CSS is calculating the interest on customer accounts as was noted in James Koes email forwarded to Audit on July 25th, 2013.

Audit Conclusion

Audit reiterates the issue. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue # 26

Other Income

Background

Because GSE reflected only above the line revenue accounts in the filing, Audit did not review the Other Miscellaneous Income which would have been included in the full financial statement. (See Audit Issue #3)

Issue

Audit noted the following accounts were not included in the rate filing:

National Grid:	
#419010 Interest Income	$(109,363)
#419101 Interest-Rabbi Trust	$ (15,737)
#419103 Interest-Temporary Cash	$ (2,235)
#419106 Other Interest-Refund	$ 94
#419110 Interest and Dividend	$ (951)
$419111Interest-Money Pool	$ (3,545)
#419202 Dividend Rabbi Trust	$ (5,206)
#419100 Allowance Other Funds Used during Constcn	$ (85,960)
	$(222,903)
Liberty:	
#8830-2-0000-40-4410-4191 Interest-Other	$ 15
#8830-2-0000-40-4410-4192 Interest and Dividend	$ (62,076)
#8830-2-0000-40-4410-4195 Interest Temporary Cash	$ (1,664)
#8830-2-0000-40-4420-4190 Interest Income	$ (32,003)
#8830-2-0000-40-4700-4191 Allowance Other Funds Used during Constcn	$ (35,003)
	$(131,642)

Recommendation

The full financial statement of the Company should be reviewed by the Staff during the instant proceeding.

Company Response

The Company has filed a copy of the Granite State FERC Form 1 with the NH PUC.

Audit Conclusion

Audit was informed on August 13, 2013, that the FERC Form 1 had been filed on August 2, 2013. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue # 27
Lack of Documentation

Background

Audit selected a variety of 164 invoices from the general ledger, of which 71 related to National Grid.

Issue

Only a total of 13 invoices out of 71 were able to be verified as accurate.

16 of the general ledger selections were for accruals. A request for the actual invoice has not been answered.

The remaining 42 invoice could not be verified as the invoice amount did not match the amount paid.

Audit requested the cost allocation manual for National Grid to verify the amounts were allocated correctly. GSE noted that a particular Dig Safe invoice was not allocated but split by company.

Audit followed up by asking if a certain percentage is always used or if the invoices are split on a case by case basis. Audit has not received a response to this question.

Recommendation

Audit was unable to satisfactorily review the National Grid invoices.

Company Response

The Company continues to work with National Grid to provide all of the invoices requested by Audit.

Audit Conclusion

Audit continued to work with Granite State to resolve the unverified invoices until August 26, 2013. Granite State was able to provide all of the supporting invoices for the Accounts Payable accruals that were selected.

Granite State also provided a significant amount of support for the 42 invoices that could not be verified to the general ledger amount paid. There are 5 selections that remain open with 2 of those selections being partially open. The 2 partially open selections contained multiple invoices. One invoice in each of those selections remains unverified.

The dollar value of Audit's 71 selections totaled $2,849,238. The total value of unverified invoices is $65,896. Audit restates the issue. The fieldwork of almost three months has concluded.

Audit Issue #28

Expense Account Overstated

Background

Audited requested detail regarding a Travel and Expense Reimbursement for $52,417.34.

Issue

The activity noted in account 8830-2-0000-51-5410-5830 was for credit card reimbursement. The charges on the card were $52,417.34, minus a credit of $188.56. The reimbursement was submitted for the total new charges excluding the credit, and payment was made based on that amount.

The payment was split between the overhead line account $1,124.88 and account 8830-2-0000-10-1930-1825, Storm Costs $51, 292.46.

Audit questioned why reimbursement was made for the new charges total and not the balance due. GSE replied that this was an overpayment and unfortunately the error was not caught. GSE also noted they have taken steps to strengthen controls.

Recommendation

Audit recommends that the Company strengthen all internal controls related to employee expense reimbursement to ensure overpayment does not occur. The employee should reimburse the Company for the amount of the overpayment.

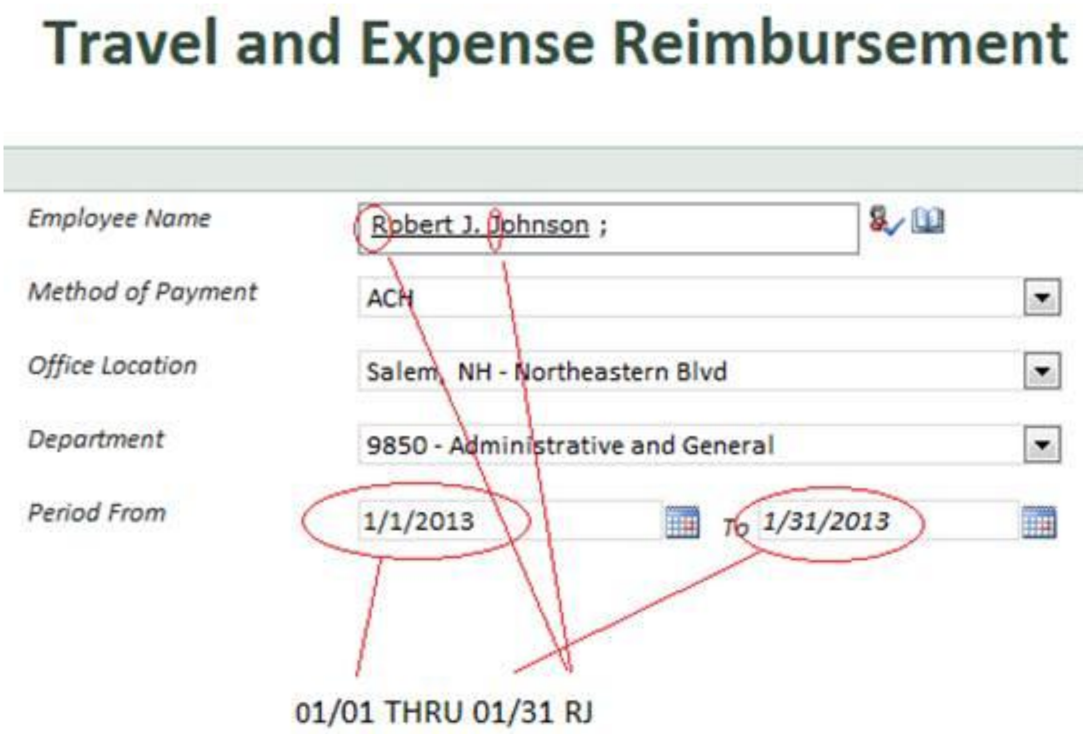
Company Response

In response to Audit Request #78 sent on 7/22, the Company provided the information below indicating internal controls over employee expense reimbursements were enhanced subsequent to this error. A credit amount was applied to the employee expense account immediately upon being notified of this issue.

Since Jan 2013 the following steps have been put into our procedures in an effort to prevent duplicate/over payments.

-All vouchers are now checked by 3 different people, the employee's manager, A/P, and then the Accounts Manager.
-The date range is compared to existing vouchers in the system, if they overlap the historic voucher paper copy is pulled and check line by line to the new claim.
-All receipts submitted are matched to the values submitted on the expense voucher.
-T&E invoice number generation has been standardized to the following:

DD/MM THRU DD/MM XX



Travel and Expense Reimbursement

Employee Name	Robert J. Johnson ;
Method of Payment	ACH
Office Location	Salem, NH - Northeastern Blvd
Department	9850 - Administrative and General
Period From	1/1/2013 To 1/31/2013

01/01 THRU 01/31 RJ

Audit Conclusion

Audit concurs with the Company response and reiterates that internal controls need to be strengthened.

Audit Issue # 29
Vegetation Costs in Incorrect Account

Background

From the Liberty/Granite State general ledger, Audit made a selection of 164 journal entries. Audit requested the supporting documentation such as invoices and travel and expense reported for those selected entries.

Issue

Two invoices for tree maintenance were not charged to the vegetation management accounts. It was noted by Granite State that "*Vegetation Management costs should be coded to 5210-5932 and going forward we'll make sure it does. But at the FERC level it rolls up to the same account. Also the primary way veg management costs are tracked in the REP/VMP filing is by feeder circuit and those are tracked by job.*"

Account #8830-2-0000-56-5210-5930, Maintenance of Overhead Lines, is overstated by:

$30,853
$ 5,192
$36,045

Recommendation

The Maintenance of Overhead lines in the filing should be adjusted by $36,045 and the VMP/REP costs should be increased.

While Audit understands at the FERC level that the accounts roll into the same reference account, for regulatory purposes, the appropriate classification must be followed, as one relates to base rates and one is an annual reconciliation funded separately.

Company Response

The Company concurs with the Audit recommendation that these costs should be removed from the revenue requirement, and added to the VMP/REP costs to be recovered in its next filing on this matter.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #30

EnergyNorth costs in GSE

Background

From the Liberty/Granite State general ledger, Audit made a selection of 164 journal entries. Audit requested the supporting documentation such as invoices and travel and expense reported for those selected entries.

Issue

Invoices that should have been charged to EnergyNorth were charged to Granite State:

Account 8830-2-0000-69-5130-9210 Office Supplies and Expenses	$ 997
Account 8830-2-9830-69-5130-9210 Office Supplies-Finance & Admin	$1,496
Account 8830-2-9855-69-5130-9210 Office Supplies-Legal	$4,550
	$7,043

Recommendation

The rate filing should be adjusted down by the amounts noted, which were mis-posted to GSE.

Company Response

The Company agrees the $997 charge and the $4,550 charge were misclassified. However, the $1,496 should be charged in part to Granite State. The charge is for the Bates software used for regulatory filings. The Regulatory Department indicated the number of regulatory filings as approximately the same for Granite and EnergyNorth. Therefore, 50% of this amount is properly charged to Granite and $748 should be reclassified to EnergyNorth.

Audit Conclusion

Audit concurs with the Company response regarding the $997 and $4,550 charges. However, Audit notes that the Cost Allocation Manual states invoices will be allocated to EnergyNorth at 70% and Granite State at 30%. Therefore, the invoice in the amount of $1,496 should be reclassified to EnergyNorth in the amount of $1,047.20.

Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #31

Rate Case Expenses

Background

From the Liberty/Granite State general ledger, Audit made a selection of 164 journal entries. Audit requested the supporting documentation such as invoices and travel and expense reported for those selected entries.

Issue

Rate Case expenses should be deferred. The following were noted in the expense accounts referenced:

Account 8830-2-9815-69-5010-9201 A&G Salaries EH&S LU Headoffice	$ 255
Account 8830-2-0000-69-5200-9232 Outside Services APUC HO Allctns	$11,621
	$11,876

Recommendation

The expenses should be re-classified to a deferred rate case expense account and the filing should be adjusted accordingly.

Company Response

The Company concurs with the Audit recommendation that these costs should be removed from the revenue requirement.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue # 32

Allocation

Background

From the Liberty/Granite State general ledger, Audit made a selection of 164 journal entries. Audit requested the supporting documentation such as invoices and travel and expense reported for those selected entries.

Issue

According to Algonquin's cost allocation manual, invoices for both EnergyNorth and Granite State should be allocated 70/30. On several invoices Granite State used an allocation other than 70/30 resulting in erroneous charges to GSE:

Account 8830-2-9815-69-5130-9210 Office Supplies-HR	$ (9) under charged
Account 8830-2-9830-69-5130-9210 Office Supplies-Regulatory	$ 99 over charged
Account 8830-2-9855-69-5130-9210 Office Supplies-Legal	$240 over charged
Account 8830-2-9865-69-5130-9210 Office Supplies-Customer Service	$279 over charged
(See **Audit Issue #33** as this is the amount also should have been capitalized)	
Account 8830-2-0000-69-5200-9232 Outside Services APUC HO Allctns	$210 over charged
	$819 net over charge

Recommendation

The Company must ensure that the cost allocation manual is followed.

Company Response

The Company concurs with the Audit recommendation that these computational errors should be corrected in determining the revenue requirement.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #33
Expense vs. Capital

Background

From the Liberty/Granite State general ledger, Audit made a selection of 164 journal entries. Audit requested the supporting documentation such as invoices and travel and expense reported for those selected entries.

Issue

O&M Expenses that were over the capitalization threshold of $2,500 were not being capitalized. The total noted from the invoices tested $7,925, posted to the following expense accounts:

Account 8830-2-9815-69-5130-9210 Office Supplies-HR	$4,799
Account 8830-2-9865-69-5130-9210 Office Supplies-Customer Service	$3,126
	$7,925

As noted in **Audit Issue #32**:

Account 8830-2-9865-69-5130-9210, Office Supplies-Customer Service, was over charged by $279. However, based on a review of the following Spectrum invoices, the total cost should have been capitalized rather than expensed:

Total Invoice #1	$2,794	allocated to GSE 40%	$1,118	at 30%	$ 838
Total Invoice #2	$6,696	allocated to GSE 30%	$2,008	at 30%	$2,008
	$9,490		$3,126		$2,846

This first invoice was allocated 60/40. GSE assumed the allocation was based on the sign locations. At 40%, GSE was charged $1,118 making the total of the project over the capitalization threshold. GSE admitted this should have been capitalized. If allocated properly, the amount GSE should have been charged would have been $838, therefore they overpaid by $279.

Recommendation

The Company should review the total cost of the sign to determine compliance with the capitalization policy, and adjust the filing and general ledger as appropriate.

Company Response

The Company concurs with the Audit recommendation that expenses of $3,126.43 ($2008.71 plus $1,117.72) should be removed from the revenue requirement, $2,847.00 ($2008.71 plus $838.29) should be capitalized and $279.43 should be charged back to EnergyNorth.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue # 34

Invoices which should post Below the Line

Background

From the Liberty/Granite State general ledger, Audit made a selection of 164 journal entries. Audit requested the supporting documentation such as invoices and travel and expense reported for those selected entries.

Issue

The invoices noted in the following accounts should have posted below the line:

Account 8830-2-9830-69-5130-9210 Office Supplies-Finance & Admin	$1,250
Account 8830-2-9865-69-5200-9230 Outside Service-Customer Service	$ 208
Account 8830-2-0000-69-5615-9302 Miscellaneous General Expense	$ 300
	$1,758

Conclusion

The specific invoices reviewed were misposted to the accounts noted. Therefore the filing should be adjusted to exclude these expenses.

Company Response

The Company concurs with the Audit recommendation that these costs should be removed from the revenue requirement.

The Company will include this adjustment in connection with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue # 35

Accumulated Other Comprehensive Income

Background

Accumulated Other Comprehensive Income contains a debit balance of $1,232,012.

Issue

Account #8830-2-0000-30-3800-2190, Accumulated Other Comprehensive Income, reflected only closing entries, which were not reflected in the filing. The Balance in the account is a debit $1,232,012.

Recommendation

Refer to the details in Audit Issue #11. The filing was compiled prior to the closing of the books of the Company.

Company Response

The filing was submitted before the FERC Form 1 was prepared and before the final closing entries for 2012 were posted. Schedule RR-4 reflects the balances on the books of the Company at the time the filing was prepared.

Accumulated Other Comprehensive Income is not included in rate base. Therefore this item has no impact on the revenue requirement.

The Company will reflect the appropriate Accumulated Other Comprehensive Income on its balance sheet with its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

Audit concurs with the Company response. Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue # 36
Payroll

Background

Audit requested and received a copy of Liberty Energy Utilities, NH's W-3.

Issue

Ceridian's year-end payroll register shows the total wages for both Granite State and EnergyNorth to be $9,127,062.23. Granite State provided a break-down of Granite State's payroll to be $3,579,007 and EnergyNorth's payroll to be $5,547,167, totaling $9,226,174. The variance is $99,112.

Granite State said there is a difference in the numbers due to a difference between GSE's payroll rates and what Ceridian pays. Granite State's total is based on their time track system and what they allocated to each job. The Ceridian amount is *what was actually paid*.

Audit was unable to verify the payroll tax returns to the general ledger and filing. Audit questioned Granite State on how this could be accomplished and was told it was very unlikely the numbers would tie. The first reason identified by GSE is Granite State did not remember if they used the 70/30 allocation or if it was based on the employee's payroll for the month. The second reason noted is that the totals on the general ledger and filing were reduced by capitalized payroll and billable payroll. Granite State said the only way Audit would be able to verify the general ledger numbers were "*in the correct ball park was to apply an average tax rate to the payroll and verify that the general ledger numbers were lower*."

Granite State applied the averaged payroll taxes for July-December of 8.598% from the Ceridian summary sheet to the Granite State payroll of $3,579,007. The total came to $307,723. The total payroll taxes filed for Granite State was $223,277, a variance of $84,446.

Audit was unable to verify the payroll taxes on the general ledger and filing are accurate.

Recommendation

The Company must be able to reconcile its posted payroll figures and reconcile those to the actual amounts paid to the employees. Based on the above, the overall total between the general ledgers of GSE and ENNI and the Ceridian payroll register is $99,112,.

Company Response

In order to reconcile the payroll taxes for Granite State, the Company is providing the following documentation:

1. Spreadsheet summary of Ceridian reports for July 13, 2012 through December 28, 2012.

2. Ceridian reports for each week July 13, 2012 through December 28, 2012 (25 reports).
3. Pivot showing 8810 entries recording the payroll taxes.
   a. This ties to the Ceridian reports.
4. Liberty W-3 for 2012.
   a. This ties to the Ceridian reports.
5. Liberty 941 for Q3 and Q4.
   a. These tie to the Ceridian reports.
6. Pivot showing amount charged to Granite and EnergyNorth.
7. Pivot showing the percentages of taxes charged to Granite and EnergyNorth.
8. Workpapers showing the payroll charged to Granite and EnergyNorth each month.
   a. This is the basis for allocating payroll taxes.
9. Pivot showing all entries on 8810 that net to zero for July through December 2012.
10. General ledger detail for account 881-2-0000-20-2140-1840 for August 2012.
    a. This shows the time track system credits the account and the Ceridian based entry debits the account.
11. Account summary for 8810-2-0000-20-2140-1840 for 2012.
    a. This shows that any variances between time track and Ceridian were cleared at year end.
12. A pivot showing all activity that matches the $223,277.43.
    a. A number of the entries reduce the Granite tax expense due to charges for Mutual Aid billings, intercompany billings and amounts being capitalized.

Audit Conclusion

Audit reviewed the additional 12 documents that GSE provided on August 21, 2013 as noted above. The Ceridian summary report (which is a combination of Granite State and EnergyNorth) for July 13, 2012 through December 28, 2012 tied to the weekly reports for that time period. The summary sheet also ties to Liberty's 2012 W-3 and Quarter 3 and Quarter 4 941. However, the pivot table provided showing the breakdown of the amounts charged to each Granite State and EnergyNorth (item number 6 above) did not match the Ceridian amounts. The sums of both October and December are off by $6,031.38 and $32,814.04 respectively.

A pivot table of the general ledger payroll tax accounts was provided. The sum of these accounts, $223,277.43, did match the actual general ledger. However, when Audit tried to tie the journal entries back to the breakdown of amounts (item 6) they could not verify the October and December amounts due to the fact the breakdown was inaccurate.

GSE provided the August 2012 general ledger detail for account 8810-2-0000-20-2140-1840 showing that the Time Track system" credits the account and the Ceridian based entry debits the account. The Ceridian entry does match the Ceridian summary report for August. A summary inquiry for all of 2012 was also provided for the above mentioned account. This was provided to show that any variances between Time Track and Ceridian were cleared at year end. The summary does show a $0.00 balance at period 12 however, the Ceridian amount for the month of August is the only amount that ties back to the Ceridian payroll summary. The July, September, October, November and December Ceridian numbers are not the same as the amount shown on the payroll summary. Audit restates the issue.

Audit Issue #37

Federal Tax Returns

Background

Audit requested copies the federal tax returns filed by Granite State for 2010, 2011 and 2012. Pro forma federal form 1120 tax returns for Granite State were provided for 3/31/2010, 3/31/2011 and 3/31/2012.

The state business tax returns, which start with the federal tax returns indicated that Granite State filed its federal tax returns as part of National Grid Holdings Inc. and Subsidiaries consolidated 1120 return.

Audit had a conference call with Granite State and National Grid on 8/2/2013. National Grid was reluctant to provide the consolidated returns and additional information requested by Audit. Clarification of what net operating losses and tax credits were available to GSE for future periods was also requested.

Issue

National Grid consolidated 1120 return and consolidating supporting schedules were not provided. Audit was unable to verify that the pro forma federal returns would tie to the Granite State activity reported in the consolidated 1120 federal returns and with the general ledger.

Audit requested complete copies of the consolidated federal returns *actually filed* with IRS for 2010, 2011 and 2012 along with a schedule of tax attributes (net operating losses and carryovers, general business credit carryovers, alternative minimum tax credit carryovers and capital losses) available to Granite State for 2010, 2011, 2012 and future periods. These were not provided.

Recommendation

GSE must provide information requested and be able to support the entries posted to the books of the Company.

Company Response

The Company has provided a confidential response regarding the net operating losses and tax credits and provided pro forma returns and an affidavit stating the pro forma returns reflect the information filed in the consolidated return.

Audit Conclusion

Audit discussed the lack of information at an exit audit meeting on 8/21/2013. While the Company did provide the confidential tax sharing agreement, the actual returns and schedules were not provided. The Company contacted National Grid on 8/21/2013 and requested an affidavit indicating that the proforma schedules which were provided to Audit are an accurate presentation of the actual schedules. On 8/26/13 an affidavit signed by the Vice President of Tax, National Grid was provided indicating that the pro forma federal returns accurately reflect the amounts included in the federal consolidated returns for GSE.

Audit Issue #38
Federal Tax Returns to General Ledger

Background

Granite State reported Federal Income Tax Expense (FIT) of $(357,780) on both schedules 1604.04(a) (1) a. b. and RR-2-1 of the filing which tied back to the following National Grid general ledgers (no activity was reported on the Liberty/GSE general ledger):

Federal Income Tax Expense (FIT #410)

409150	Fed Inc Tx-Current Year	$ (56,408)
409151	Fed Inc Tx-Utility Operations	$ 381,395
409160	Fed Inc Tx-Prior Years	$(1,700,585)
410100	Def FIT Expense-Debit	$ (237,412)
410105	Def FIT Expense-Prior Year	$1,700,585
411100	Def FIT Expense-Credit	$ (428,176)
411400	ITC Adjustment-Amort	$ (17,178)
		$ (357,780)

Issue

Audit was unable to tie the above pro form returns to the National Grid general ledger accounts listed above.

Additionally, it should be noted that the above expense reflects the taxes associated with the utility operations only and does not include National Grid general ledger tax activity associated with other income and deductions below:

410200	Def FIT Exp-Other Oper-Debit	($36,631)
409200	Fed Inc Tx-Nonutility Oper	$56,408
		$19,777

Recommendation

The Company must be able to support all tax expense items and demonstrate that it has included all appropriate accounts in the filing.

Company Response

The Company has provided the reconciliation.

<u>Audit Conclusion</u>

Audit discussed the lack of confidential information at an exit audit meeting on 8/21/2013. The Company requested (via email on 8/21/2013) from National Grid an explanation and reconciliation from the proforma schedules to the actual general ledger account postings. A reconciliation of the general ledger to the returns was provided on 8/26/2013. Due to time constraints however, Audit was unable to complete the review of the reconciliation.

Audit Issue #39

State Business Tax Returns

Background

Audit requested copies of 2010, 2011 and 2012 state tax returns filed by Granite State. Copies of the three most recently filed combined group water's edge tax returns for National Grid Holdings Inc. & Subsidiaries were provided.

Issue

The combined returns included Granite State's business activity. The necessary consolidating and combining schedules which breakout each business entity on a separate entity basis were not provided.

Audit requested complete copies of the combined group business tax returns along with all consolidating and combining schedules for 2010, 2011 and 2012 along with a schedule of tax attributes (net operating losses, BETCR carryovers, and capital losses) available to Granite State for 2010, 2011, 2012 and future periods. These have not been provided.

The test year was calendar year 2012; Granite State filed its tax returns on a fiscal year basis, only three months of the test year (January through March) have actually been filed as of the date of the report. The income tax expense general ledger activity provided was for National Grid and included monthly activity through June, no income tax expense activity was reflected on the LU/GSE general ledger.

The National Grid Holdings Inc. and Subsidiaries combined tax return included a schedule (NH 1120-WE, Schedule C Attachment) that listed the business organizations included in the combined return which was approximately 70-75 business organizations. The 70-75 business organizations included the members of the National Grid Holdings Inc. and Subsidiaries included in the consolidated return as well as 2-3 additional unitary business organizations.

Because the Company filed as part of a combined return and did not provide consolidating/combining schedules that break out each individual business entity's activity Audit is unable to determine what Granite State's portion of the state business taxes and credits would be.

Recommendation

As noted in Audit Issue #38, the Company must provide the supporting tax details and be able to demonstrate that all entries in the general ledger are accurate and complete.

Company Response

The Company provided a confidential response regarding the net operating losses and tax credits and provided pro forma returns and an affidavit stating the pro forma returns reflect the information filed in the consolidated return. The Company has also provided a reconciliation of federal taxable income to state taxable income.

Audit Conclusion

Audit discussed the lack of information at an exit audit meeting on 8/21/2013. While the Company did provide the confidential tax sharing agreement, the actual returns and schedules were not provided.

The Company requested (via email on 8/21/2013) from National Grid an explanation and reconciliation from the proforma schedules to the actual general ledger account postings. On 8/26/2013 an affidavit signed by the Vice President of Tax, National Grid was provided indicating that the pro forma federal returns accurately reflect the amounts included in the federal consolidated returns for GSE. The Company also provided the following reconciliation of the federal return to the state return on 8/26/2013:

	FY 3/2010	**FY 3/2011**	**FY 3/2012**	
Federal Taxable Income - Line 30	(6,907,060)	(1,779,769)	(4,706,166)	
Add: Special Deductions - Line 29	5,978	6,742	6,612	Deduction not allowed for state
Federal Taxable - Line 28	(6,901,082)	(1,773,027)	(4,699,554)	
State Modifications:				
State Income Tax Expense	(167,599)	536,344	(375,170)	Deduction not allowed for state
Federal Depreciation	6,471,300	6,557,462	5,658,711	
State Depreciation	(3,916,320)	(3,882,589)	(3,822,042)	State does not allow bonus depreciation, thus is a smaller deduction
481(a) Modification	0	0	(1,917)	
Tax Exempt Interest Income	24,309	27,911	26,259	Income taxable for state
State Taxable Income	(4,489,392)	1,466,101	(3,213,713)	

Audit Issue #40
State Business Tax

Background

Granite State reported State Income Tax Expense (SIT) of $(416,629) on both schedules 1604.04(a) (1) a. b. and RR-2-1 of the filing which tied to the following NGrid general ledgers (no additional activity was reflected on the Liberty/GSE general ledger):

409101	Tx Oth Inc Tx-NH Bus Profit Tx	$(40,937)
409123	Inc Tx-St Fran MA-Prior Year	$232,239
409128	Inc Tx-St Fran-Prior Year	$(389,854)
410150	Def SIT Expense-Debit	$38,411
410155	Def SIT Expense-Prior Year	$55,719
411150	Def SIT Expense-Credit	$(312,207)
		$(416,629)

Issue

Audit was unable to tie the above combined tax returns to the above NGrid general ledger accounts.

Additionally, the above expense reflects the taxes associated with the utility operations and do not include NGrid general ledger tax activity associated with other income and deductions below:

410250	Def SIT Exp-Other Oper-Debit	($9,723)
409210	St Inc Tx-Nonutility Oper	$14,972
		$5,249

Recommendation

As noted in Audit Issue #38 and #39, the Company must be able to demonstrate that all entries in the general ledger are accurate and complete.

Company Response

The Company has provided the requested reconciliation.

Audit Conclusion

Audit discussed the lack of confidential information at an exit audit meeting on 8/21/2013. The Company requested (via email on 8/21/2013) from National Grid an explanation and reconciliation from the proforma schedules to the actual general ledger account postings. A reconciliation of the general ledger to the returns was provided on 8/26/2013. Due to time constraints however, Audit was unable to complete the review of the reconciliation.

Audit Issue #41

Municipal Property Tax Assessment for EnergyNorth paid by Granite State

Background

Liberty Utilities NH acts as the service company and processes the accounts payables to both Granite State and EnergyNorth.

Issue

Audit identified a property tax assessment from the Town of Derry for EnergyNorth Natural Gas Inc. in the amount of $26,899 that was paid by Granite State on 11/26/12. The invoice was posted to the prepaid municipal property tax account # 8830-2-0000-10-1240-1653 with the credit offset to the Due to Liberty Energy New Hampshire account # 8830-2-0000-20-2810-2606 resulting in both accounts being overstated by the $26,899.

Recommendation

The prepaids on the filing should be adjusted by the $26,899 and the Company must correct the error on its books, reduce the prepaid and due to accounts.

Company Response

The Company concurs that a Municipal Property Tax Assessment for EnergyNorth was paid by Granite State, and this incorrectly increased the amount for Prepayments in the rate base (Schedule RR-5, line 7). When this item is corrected, it will reduce the rate base one-fifth of the payment amount ($5,379.80), because the rate base reflects a 5-quarter average and this item affected only the last quarter.

The Company will reflect the correct amount in its next submission of schedules in this proceeding (i.e., rebuttal or Corrections and Updates filing).

Audit Conclusion

The Company is reminded that the audit was conducted on the books of GSE. The full erroneously booked $26,899 must be removed from the books of GSE and properly posted to ENNG. How the correcting general ledger entries impact a five quarter average is not relevant to the misposting.

Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #42

Accrued Municipal Property Tax

Background

Within the $12,438,371 of total accrued expenses reported on RR-4 of the filing were the following tax accounts:

8830-2-0000-20-2530-2364	Tx Accr-Municipal Property	($1,274,791)
8830-2-0000-20-2550-2416	Tx Coll Pay-Consumption Tax	($41,169)
		($1,315,960)

Issue

Liberty/GSE account #8830-2-0000-20-2530-2364, Tx Accr-Municipal Property, reflected $21,496 of debit activity (beginning balance), $1,296,287 of credit activity and an ending credit balance of $1,274,791.

While the Liberty/GSE account reflected a debit beginning balance of $21,496, Audit was unable to tie the amount back to the ending balance of the National Grid account # 236300, Tx Accr-Municipal Property, which reflected an ending balance of zero.

Recommendation

The Company must identify from where the debit activity originated, and indicate the offset.

Company Response

The $21,496 was a July 1, 2012 payment made by National Grid for property taxes to the town of Charlestown NH. Therefore the offset to the entry was to accounts payable. The amount will be reclassified into the prepaid property tax account.

Audit Conclusion

Audit appreciates and understands the Company's response, received on 8/26/2013. No support was provided.

Any adjusted schedules to be compiled by the Company should be filed with the Commission as soon as possible, and prior to the filing of rebuttal testimony, to allow for timely and orderly consideration by all interested parties in the docket.

Audit Issue #43

Consumption Tax

Background

Distribution companies collect an electric consumption tax, which is calculated on a kWh basis then remitted to the NH DRA.

Issue

A comparison of the ending balance of the NGrid consumption tax account and the beginning balance of the LU/GSE consumption tax account which reflects a difference of $813:

NGrid	241030 -Tx Coll Pay-Consumption Tax	($41,239)
LU/GSE	8830-2-0000-20-2550-2416-Tx Coll Pay-Consumption Tax	($43,981)
	Difference	$ 2,742

Recommendation

As noted in Audit Issue #43, the Company must identify the variance.

Company Response

There was an error in reading the pivoted general ledger of National Grid data provided to Audit. The value for the account as of June 30, 2012 was in the column labeled "2013 Total" showing the amount of $41,239. The opening balance transferred from National Grid was $43,981 a difference of $2,742, which was caused by an accrual for tax on July 1 and 2, 2012.

Audit Conclusion

Audit concurs with the Company comment.

DE 13-063
Granite State Electric Company d/b/a Liberty Utilities
Liberty Utilities Responses to OCA Set 2 dated July 5, 2013

Date Request Received: July 5, 2013
Request No. OCA 2-9

Date of Response: July 19, 2013
Witness: ChristiAne G. Mason
Dr. Michael R. Schmidt

REQUEST:

Please provide the budgeted and actual amount spent for each year of the REP/VMP program since its inception with DG 06-107. Please provide O&M and capital amounts separately.

RESPONSE:

The budgeted and actual amounts for each year of the REP/VMP program are provided in the table below.

REP/VMP FISCAL YEAR TOTALS				
Year	O&M Budgeted	O&M Actual *	Capital Budgeted	Capital Actual (Plant in Service)
2008	$1,950,000	$2,169,258	$950,000	$1,358,990
2009	$1,473,832	$1,477,916	$500,000	$543,229
2010	$1,943,966	$2,407,770	$620,000	$876,243
2011	$1,552,000	$601,887	$653,000	$610,835
2012	$1,556,000	$1,064,793	$689,000	$398,239
2013	$1,721,585	$1,307,919	$588,000	$545,916

* Net of Fairpoint Reimbursements applied in years 2011, 2012, and 2013