

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: January 6, 2021
AT (OFFICE): NHPUC

FROM: Sean Courtois, PUC Examiner

SUBJECT: Liberty Utilities (EnergyNorth Natural Gas) Corp d/b/a Liberty Utilities
DG 20-105 Granite Bridge Costs Review
FINAL Audit Report

TO: Stephen Frink, Director Gas/Water
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Introduction

On November 20, 2020, Liberty Utilities, in the DG 20-105 EnergyNorth rate case, submitted Granite Bridge estimated capital costs incurred for the development of an LNG/Pipeline project along the route 101 corridor in New Hampshire to expand the Tennessee Gas Pipeline Lateral in Concord. The new pipeline was reportedly needed because the existing single Tennessee Gas Pipeline feed did not have available pipeline capacity to meet the Company's demand needs in the future.

The DaFonte/Killeen/Mullen testimony on Bates Page 007 indicates the Company is seeking approval to recover \$7.5 out of \$9.1 million in core development costs from 2016-2020 associated with the investigation, evaluation, and other development costs associated with Granite Bridge. The testimony indicates the Granite Bridge costs were necessary to assess and pursue the least-cost resource alternative to meet the natural gas demands of EnergyNorth customers. The \$1.6 million in costs the Company is not seeking to recover relate to AFUDC, carrying charges, public outreach, and miscellaneous costs related to the New Hampshire Site Evaluation Committee.

The DaFonte/Killeen/Mullen testimony on Bates Page 011 indicates that on July 14, 2020 Liberty proposed to enter into a firm transportation contract with Tennessee Gas for 40,000 Dth per day capacity from the Dracut, Massachusetts, receipt point to the Londonderry, NH TGP delivery point at possible lower rates filed under the TGP FERC Approved Tariff. The favorable terms for the Company came about because of an expiring contract in October 2021 that TGP has with Calpine. This proposed contract will need the approval of the Commission.

**Summary of Project Costs Sought for Recovery per DaFonte/Killeen/Mullen Testimony
Bates Page 033**

Liberty provided the summary of \$7,547,000 in Granite Bridge Costs sought for recovery on Bates Page 033. The summary page showed the costs in thousands of dollars. An example is Engineering costs were listed as \$3,327 when the exact amount shown below is \$3,327,027. The Company Manager of Rates and Regulatory Affairs provided a more detailed summary on November 24, 2020 of the pipeline and LNG costs summarized below than the initial testimony provided by the Company. The costs indicated GL transactions but not a specific GL account to which they were booked. The Manager of Rates and Regulatory Affairs indicated these GL transactions/cost detail was managed by a Project Manager that is an engineer not an accountant. This is why the initial GL did not include account numbers.

Engineering	\$3,327,027	Total 2016	\$28,147
Environmental	\$1,485,283	Total 2017	\$185,849
General Consulting	\$ 836,990	Total 2018	\$2,826,374
Commission Related	\$ 268,000	Total 2019	\$4,309,435
Internal Labor	\$1,299,397	Total 2020	\$196,248
Land	\$ 329,016	All Years	\$7,546,053
Reported Total	\$7,546,053		

	LNG 2016	LNG 2017	LNG 2018	LNG 2019	LNG 2020	LNG Total
General Consulting Costs	\$ -	\$ -	\$ 78,494	\$ 43,411	\$ 28,251	\$ 150,156
PUC Consulting Costs	\$ -	\$ -	\$ 135,755	\$ 132,583	\$ -	\$ 268,339
Environmental	\$ -	\$ -	\$ 181,697	\$ 248,506	\$ (10,184)	\$ 420,020
Engineering	\$ 19,923	\$ 118,870	\$ 375,534	\$ 944,275	\$ -	\$1,458,603
Internal Labor	\$ 4,653	\$ 45,690	\$ 205,849	\$ 283,637	\$ 42,174	\$ 582,004
Land	\$ 500	\$ -	\$ 90,000	\$ 120,000	\$ 10,000	\$ 220,500
TOTAL	\$ 25,076	\$ 164,560	\$ 1,067,330	\$ 1,772,412	\$ 70,242	\$ 3,099,621

	Pipeline 2016	Pipeline 2017	Pipeline 2018	Pipeline 2019	Pipeline 2020	Pipeline Total
General Consulting Costs	\$ -	\$ -	\$ 350,005	\$ 308,578	\$ 28,251	\$ 686,834
PUC Consulting Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Environmental	\$ -	\$ -	\$ 474,411	\$ 580,420	\$ 10,433	\$ 1,065,264
Engineering	\$ -	\$ 5,055	\$ 657,198	\$ 1,195,932	\$ 10,240	\$ 1,868,425
Internal Labor	\$ 3,071	\$ 16,234	\$ 247,431	\$ 373,576	\$ 77,082	\$ 717,393
Land	\$ -	\$ -	\$ 30,000	\$ 78,516	\$ -	\$ 108,516
TOTAL	\$ 3,071	\$ 21,289	\$ 1,759,044	\$ 2,537,023	\$ 126,006	\$ 4,446,432

Summary of Pipeline/LNG Costs

The Company broke out costs between LNG/Pipeline. The pipeline was proposed to run along Route 101 and the LNG Storage Tank was to be located in Epping. Below are general definitions of the types of costs the Company is proposing to recover.

General Consulting- These were tasks performed by Scott Madden Inc. The work focused on economic analysis, demand forecasting, testimony, and data responses associated with the filing for approval of the Granite Bridge Project along with supply/capacity contracts.

PUC Consulting Costs- These costs refer to payment of consulting cost incurred by the NHPUC to support the investigation of Liberty's Granite Bridge Filing in DG 17-198.

Environmental Costs- These are costs incurred to comply with all necessary state and local environmental permitting associated with the potential development of the Granite Bridge Project.

Engineering Costs- These are costs incurred to determine the feasibility and cost to potential development of the Granite Bridge Project and to comply with all necessary state/local permitting.

Internal Labor- These costs refer to hours spent by internal Company personnel working directly on the analysis, project development, project management, and general development of the potential Granite Bridge Project.

Land Costs- These costs refer to special analysis, searches, leases, or options to lease any land necessary for the potential development of the Granite Bridge Project.

On December 1, 2020, the Company provided an updated \$7,489,309 GL balance adjustments that did not identify the specific GL account. The Manager of Rates and Regulatory Affairs indicated he had met with Accounting Staff that identified adjustments that needed to be made such as non-recoverable costs, overpayments, duplicates, adjustments, and invoices approved but not yet paid. The Company Engineer did not communicate with Accounting but instead managed the project through the Company Capital Project Management Software Wennsoft. The Company Accounting Staff is able to track capital project costs to the Great Plains GL system and make any necessary adjustments. The chart below summarizes the GL adjustments as well as the updated recovery balance the Company was seeking.

		Notes
Original GL Balance	\$7,546,053	Provided to Audit on 11/24/2020
CBI Services	(\$26,000)	Identified as non-recoverable cost
Epsilon Associates	(\$1,148)	Duplicate Payment
Sanborn Head	(\$66,543)	Accounting Adjustment
Western Specialties	(\$33,803)	Identified as non-recoverable cost
Adjusted GL Balance	\$7,418,559	
Gradient	(\$180)	Overpayment (typo) Not booked to GL
Vanasse Hangen Brustlin	\$10,172	Invoice 326766 approved not yet paid Not on GL
CHA Consulting	<u>\$60,758</u>	GB costs charged to other projects (Invoices CHA 32652-01, 02, 03, 04)
GB Prop. Recoverable Costs \$7,489,309		

On December 2, 2020, the Company provided Audit with a detailed general ledger with account numbers. The detailed GL summed to \$7,479,317 that were proposed costs for recovery. This is a \$9,992 difference between the GL provided on December 1. The difference was due to a \$10,172 Van Hangen Brustlin invoice that was not yet booked to the GL because it was approved but not yet paid. The invoice was not accrued. There was also a (\$180) overpayment to Gradient due to a typo. With these adjustments, the Company indicates they are proposing \$7,489,309 for recovery.

The GL also included \$1,651,222 in Granite Bridge costs the Company is proposing to exclude from recovery. The GL total for both proposed and excluded recovery summed to \$9,130,540.

The Granite Bridge costs were booked to the Preliminary Survey and Investigative Charges account 8840-2-0000-10-1615-1830, Construction Work in Progress 8840-2-0000-10-1618-1070, and Miscellaneous Deferred Debits 8840-2-0000-10-1920-1860.

Proposed Costs for Recovery

Costs proposed for recovery were noted in accounts:		
8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	\$7,092,154
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	\$ (5,817)
8840-2-0000-10-1618-1070	Construction Work in Progress	<u>\$ 392,979</u>
	Total Proposed for Recovery	\$7,479,317

Vendor	#183	#186	#107	Total
Analysis Group Inc.	\$ 181,046	\$ -	\$ 13,119	\$ 194,165
Beals and Thomas Inc.	\$ 17,768	\$ -	\$ -	\$ 17,768
CBI Services, LLC	\$ 271,760	\$ -	\$ -	\$ 271,760
CHA Consulting	\$ 84,042	\$ -	\$ -	\$ 84,042
CHI Engineering Services Inc.	\$ 1,736,266	\$ -	\$ -	\$ 1,736,266
Cornerstone Energy Services Inc.	\$ 78,516	\$ -	\$ -	\$ 78,516
Epsilon Associates, Inc.	\$ 19,130	\$ -	\$ -	\$ 19,130
Exponent Inc.	\$ 52,967	\$ -	\$ -	\$ 52,967
Gradco LLC, Dba Gradient	\$ 10,636	\$ -	\$ -	\$ 10,636
Karen George, Trustee Charles George 2007 Irrevocable Trust	\$ 200,000	\$ -	\$ 20,000	\$ 220,000
Liberty Utilities Canada Corp.	\$ 186,104	\$ (5,817)	\$ 164,904	\$ 345,192
Liberty Utilities Service Corp.	\$ 535,427	\$ -	\$ 95,558	\$ 630,985
LU-OH	\$ 87,512	\$ -	\$ -	\$ 87,512
NHPUC	\$ 268,339	\$ -	\$ -	\$ 268,339
Payroll	\$ 234,002	\$ -	\$ 1,707	\$ 235,708
Premier Properties, Inc.	\$ 500	\$ -	\$ -	\$ 500
Sanborn Head and Associates Inc.	\$ 948,440	\$ -	\$ -	\$ 948,440
Scott Madden	\$ 205,236	\$ -	\$ -	\$ 205,236
Scott Madden Inc.	\$ 545,832	\$ -	\$ 85,922	\$ 631,754
Town of Exeter	\$ 30,000	\$ -	\$ -	\$ 30,000
Vanasse Hangen Brustlin	\$ 1,270,332	\$ -	\$ -	\$ 1,270,332
VHB Engineering Surveying and Landscaping Architecture	\$ 8,622	\$ -	\$ 1,530	\$ 10,152
Western Specialities, LLC	\$ 119,680	\$ -	\$ 10,240	\$ 129,920
Total	\$ 7,092,154	\$ (5,817)	\$ 392,979	\$ 7,479,317

Based on a review of FERC accounts 183.1 Preliminary Natural Gas Survey and Investigative charges and 183.2 Other Preliminary Survey and Investigative charges, since the Granite Bridge project was abandoned, the \$7,092,154 booked to account # 8840-2-0000-10-1615-1830 should not be capitalized but rather expensed. The 183.1 account costs should be expensed to account #338 Unsuccessful Exploration and Development Costs. The 183.2 account costs should be expensed to 426.5 Other Deductions, or appropriate operating expense account.

Since the Granite Bridge project was never completed the \$392,979 booked to CWIP account # 8840-2-0000-10-1618-1070 are not used and useful, or in service. The (\$5,817) credit booked to Miscellaneous Deferred Debits account # 8840-2-0000-10-1920-1860 relate to Liberty Utilities Canada charges. The \$10,172 VHB charges that were invoiced but not accrued to the GL should be expensed to the appropriate account and written off. The \$180 Gradient invoice overpayment should be expensed to the appropriate GL account and written off. **Audit Issue # 1**

Excluded Costs for Recovery Per Company

8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	\$ (7,223,347)
8840-2-0000-10-1618-1070	Construction Work in Progress	\$ (402,529)
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	<u>\$ 9,277,097</u>
	Proposed Costs to Exclude from Request for Recovery	\$ 1,651,222

Vendor	#183	#107	#186	Total
AFUDC		\$ 571,626		\$ 571,626
Legal	\$ 622,653	\$ 1,695		\$ 624,348
Media	\$ 184,950	\$ 64,171		\$ 249,121
Municipal	\$ 961	\$ 508		\$ 1,469
Banks	\$ 203,005			\$ 203,005
Restaurants	\$ 1,153			\$ 1,153
Reclass	\$ (8,236,069)	\$ (1,040,529)	\$ 9,277,097	\$ 500
Total	\$ (7,223,347)	\$ (402,529)	\$ 9,277,097	\$ 1,651,222

Review of Proposed Excluded costs for Recovery \$1,651,222 by Company

On page 4 of this Audit Report, there is a GL summary of the proposed costs to exclude for recovery that were summarized by legal, media etc. This section based on the GL summarizes all of the vendors that were included in the GL. An actual review of the invoices was not done as the Company already removed the costs from the proposed recovery. The vendors were: AFUDC, Alfano Law Office, B.C. Underwood, Benchmark Graphics, Andrew Bernier, Minuteman Press, Max Bradford, Mary Casey, City of Manchester, Day Pitney LLP., D'Amonte, Couser, Pellerin and Associates, Dina Sylvester, Donnahue, Tucker, Ciandella, PLLC., Douglas Dorn, Drummond Woodsum, F.W. Webb, Fishnet Media, Francisco Dafonte, Norman Gallagher, Gladstein, Neandross and Associates, Glenn E. Dawson, Wilson, Dawson, and Brett, Graphix Plus, Hinckley, Allen, and Snyder LLP, Huck Montgomery, Inside Sources LLC., Stakeholder Captial LLC., John Shore, JP Morgan Chase Bank, Keegan Werlan LLP., Man Sunset Ridge LLP, Montagne Communications, Nixon Peabody LLC, Ram Printing Inc, Orr and Reno PA., Ramsdell Law Firm, relclass, Steven E. Patenaude LCR., Sophwell Inc., The Derryfield Restaurant, Town of Epping, The Union Leader, and Winwood Productions.

The Company booked \$9,130,540 to the GL accounts for the proposed/excluded combined that have been booked to the GL accounts below.

Total booked for both proposed/excluded from Recovery

Total Costs were noted in accounts:		
8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	(\$8,236,069)
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	\$9,670,076
8840-2-0000-10-1618-1070	Construction Work in Progress	<u>(\$408,346)</u>
	Total Proposed for Recovery	\$9,130,540

Review of \$7,479,317 in Proposed Costs for Recovery Invoice/Internal Cost Detail

Analysis Group \$194,165

Audit reviewed eight invoices that summed to the \$194,165 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoice details

indicate economic analysis activities were performed, such as research needed for real estate and preparing the NH Site Evaluation Application.

Beals and Thomas \$17,768

Audit reviewed four invoices that summed to the \$17,768 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices do not specify the specific work that was performed other than administrative/professional services related to work on the LNG facility in Epping along Route 101.

The Company provided an agreement from September 2017 that indicated the work performed related to the proposed LNG facility in Epping, NH along Route 101. The scope of work was site visits, photographic renderings of topographical soil for the proposed storage tank, and aerial index exhibits. The Company was to be paid based on hourly rates for professional service in addition to reimbursement for travel/materials.

CBI Services \$271,760

Audit reviewed an invoice that summed to the \$271,760 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoice indicates that the work was for an LNG FEED study for the Granite Bridge LNG facility. The Company provided the Company bid proposal that showed the scope of work for the LNG Feed Study. The FEED study was to determine design specifications, process flow, preliminary facility plot plan, control systems, storage tank arraignment, major equipment, and preliminarily electrical area. The Company in a prior version of the GL indicated that accounting had identified (\$26,000) in proposed non-recoverable costs, they were seeking to recovery. The Company in a follow up request did not identify why they were identified as having to be removed. This has no significance on the updated GL that Audit reviewed as the \$271,760 booked to the GL matched the lone invoice.

CHA Consulting \$84,042

Audit reviewed seven invoices that summed to \$84,042. There was \$23,284 booked to the GL. The Company indicated the reason for the \$60,758 difference was that there were Granite Bridge costs charged to other projects CHA invoices (32652-01, 02, 03, and 04). Audit verified the hourly rates/hours worked were calculated correctly. The invoices do not give much detail, other than that engineering services were provided.

CHI Engineering Services \$1,736,266

Audit reviewed thirty-six invoices that summed to the \$1,736,266 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the Company performed Gas Pipeline Engineering preliminary design work for LNG plant that included mapping satellite images/design assistance needed for the development of the peak shaving plant. The Company provided the bid proposal the Company submitted for the LNG FEED.

Cornerstone Energy Services \$78,516

Audit reviewed -six invoices that summed to the \$78,516 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the Company performed Granite Bridge right-of-way services for acquiring land along the route 101 proposed path of the pipeline project.

Epsilon Associates \$19,130

Audit reviewed four invoices that summed to the \$19,130 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The Company indicated invoice #819 that was credited out of proposed recovery for (\$1,148) because there was a duplicate payment. The invoices do not indicate the specific work that was performed. The Company further indicated they were hired for getting state/federal permits needed for wetlands, water quality, easements, and environmental requirements for NH SEC application

Exponent Inc. \$52,967

Audit reviewed four invoices that summed to the \$52,967 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the work performed was vapor dispersion evaluations.

The Company provided a Vapor Dispersion Evaluation for the proposed LNG storage tank in Epping. The evaluation sheet provided cost estimates that looked at flammable vapor dispersion scenarios of the liquefaction, storage, and vaporization facility in Epping. The work was essentially to study the likeliness of whether a fire could occur.

Gradient \$10,456

Audit reviewed six invoices that summed to the \$10,456. This is \$180 difference compared to the \$10,636 booked to the GL. The Company indicated this an overpayment attributed to a typographical error. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the Company performed work related to the Health Impact Assessments.

Karen George, Trustee Charles George 2007 Irrevocable Trust \$220,000

There was no invoice detail but the Company provided an Option Agreement from April 2017 to purchase a piece of property/land for \$3,690,000. The contract indicates it was to expire 12 months from the effective date of April 2017.

Premier Properties \$500

Audit reviewed a \$500 Exclusive Buyer Agency Agreement that was effective from October 13, 2016 through September 30, 2017. The retainer was non-refundable to sell a large

tract of 20-100 acres of industrial land along Route 101. The \$500 Exclusive Buyer Agency Agreement was verified to the GL. Premier Properties was only used as a land agent to identify suitable LNG facility sites.

Sanborn Head Associates \$948,440

Audit reviewed thirty-two invoices that summed to the \$948,440 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the work performed was engineering services related to the LNG facility in Epping. The specific engineering work was for budgeting/planning meetings, participation in stakeholder meetings, support geotechnical investigations for the LNG site, outreach, site plans, and miscellaneous project support tasks.

Scott Madden, Inc. \$836,990

Audit reviewed twenty-three invoices that summed to the \$836,990 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the work performed was EnergyNorth gas supply strategy planning.

The Company indicated Scott Madden, Inc. is someone with whom they regularly work closely. Scott Madden, Inc. worked as a consultant to help prepare all aspects of the Granite Bridge filing.

Town of Exeter \$30,000

Audit reviewed a \$30,000 Easement Option Agreement with the Town of Exeter for \$30,000 that was signed in October 2018. The purpose of the agreement was to purchase a 100 ft. by 300-foot portion of property that abuts the proposed LNG storage tank in Epping. Audit verified the Easement Option Agreement to the GL.

Vanasse Hangen Brustlin \$1,270,332

Audit reviewed twenty-six invoices that summed to the \$1,270,332 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices themselves do not indicate the specific work performed. Audit reviewed a task sheet of the work performed that indicates the Company performed SEC Application Process assistance, wetlands, effects on environment, sound and vibration study, DOT support, DOT Permits, land surveys, effects on aesthetics, mapping, and out of scope support.

VHB Engineering \$18,793

Audit reviewed two invoices that summed to the \$18,793 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. Audit reviewed a task sheet of the work performed that indicates the Company performed SEC Application Process assistance, wetlands, effects on environment, sound and vibration study, DOT support, DOT Permits, land surveys, effects on aesthetics, mapping, and out of scope support.

Western Specialties \$129,920

Audit reviewed nine invoices that summed to the \$129,920 amount booked to the GL. Audit verified the hourly rates/hours worked were calculated correctly. The invoices indicate the work was related to analyzing/ project consulting for Granite Bridge pipeline/LNG proposals. The Company in a prior version of the GL indicated that accounting had identified (\$33,803) in proposed non-recoverable costs, they were seeking to recovery. The Company did not specify in a follow up request what those charges were specifically for. This has no significance on the updated GL that Audit reviewed as the \$ 129,920 booked to the GL matched the lone invoice.

NHPUC \$268,339

Audit was provided with a spreadsheet that the Director of the Gas/Water Division in coordination with the Business Office that tracked Liberty Consulting costs for the Integrated Resources Planning DG 17-152 docket and DG 17-198 Granite Bridge docket. The spreadsheet indicates there were consultant costs billed from April 2018-July 2019. The spreadsheet indicates the amended contract was for \$314,200 with \$269,377 allocated to Granite Bridge and \$44,823 allocated to the Integrated Resource Planning dockets. Liberty booked \$268,339 to the GL for Granite Bridge costs. This is a \$1,039 difference between the GL and the Gas/Water Commission Staff. The Company indicated the invoices did not provide a clear allocation split between IRP and Granite Bridge cost so it was up to the Company to determine the specific allocation for time worked and any necessary travel. The Director of Gas/Water indicated he not concerned about the \$1,039 difference, as it is relatively small and a result of the differing allocation methods.

	Year	DG 17-152 IRP	DG 17-198 GPB	Total	Liberty GL	Diff.
April	2018	14,351.49	37,087.46	51,438.95	\$ 36,840.73	\$ 246.73
June	2018	4,283.96	20,464.91	24,748.87	\$ 20,169.44	\$ 295.47
May	2019	1,341.51	16,618.52	17,960.03	\$ 16,026.27	\$ 592.25
June	2019	3,348.23	26,319.99	29,668.22	\$ 26,415.72	\$ (95.73)
						<u>\$1,038.72</u>

Liberty Utilities Canada \$345,192

The Company provided the 2017 Capitalization Authorization Manual that generally summarizes that Liberty Utilities Canada costs use a four-factor allocation methodology to allocate common corporate costs by: customer count 40%, Utility Net Plant 20%, Non-Labor Expenses 20%, and labor expenses 20%. LUC is a subsidiary of APUC and employs Canadian based employees.

Audit sampled three transactions from LU Canada. The transactions are \$35,966 from November 2019 \$36,419 from February 2020, and \$25,799 from July 2020. Audit was not able to complete the verification due to the limited time.

Liberty Utilities Service Corp. \$630,985

LUSC is a subsidiary of APUC. These are shared corporate service costs such as IT, HR, Treasury, Accounting, Finance, Legal, Customer Communication, Vegetation Management Compliance, Dispatch, Outage Management, Regulatory, Internal Audit, Technical, Planning, Risk Management, Training, Procurement, Executive Management, Environment Health, Safety, and Security, building rent, and facilities.

Audit sampled three transactions from LU Service Corp. The transactions are \$21,903 from December 2018, \$20,304 from December 2018, and \$24,180 from August 2019. Audit was not able to complete the verification due to the limited time.

LU-OH \$87,512

Audit requested \$10,990 August 2019 and \$5,583 February 2020 Corporate Overhead samples allocated to the Granite Bridge project. The Company indicated the corporate overhead also includes general/administrative costs. Audit was not able to complete the verification due to limited time.

Payroll \$235,708

Audit reviewed four payroll samples covering December 2016, June 2017, March 2019, and May 2019. The \$2,512 payroll sample from December 2016 was for the VP of Energy Procurement for the Granite Bridge Project. The \$1,460 payroll sample from June 2017 was for work performed on the Environmental Health and Safety portion of the project. The \$1,609 payroll sampled from March 2019 was for Government Managerial Affairs related to the Granite Bridge Project. Audit verified the specific timesheet and payroll details to the GL. Audit was not able to verify the May 2019 payroll sample due to limited time.

Bids and RFP Reviews

Audit received the bids/RFPs that the Company used for the Granite Bridge Development Project. The bids/RFPs were grouped into the following categories: Health Impact, Land Services, LNG Engineering, Pipeline Engineering, Environmental, Conceptual Engineering, and Economic Analysis.

Health Impact Assessment

The Company received two bids for the Health Impact Assessment to study the acute and chronic inhalation from air emissions/exposure from the gases associated with the potential

Granite Bridge Project. Other areas of the study were any state/community impacts. The Company went with the lowest bidder, Gradient, that also had more experience than the other bidder, Green Toxicology.

Based on a review of the invoices/GL the Company spent only \$10,636 that was significantly lower than \$63,000 Gradient proposed to bid. This is because Liberty put the project on hold in late 2019. If the Company had continued with the project and gone through with the SEC filing then it was likely the Company would have spent the full estimate.

Economic Analysis

The Company received three bids to help prepare the Company's application to the NH Site Evaluation Committee. The bid asked for assistance with testimony to cover a description of the pipeline/LNG facility, how proposals reference NH laws, maintains system reliability, tourism, jobs, economic benefits, tax revenue, recreation, and why the project is in the public interest. The three bidders were Analysis Group, Levitan and Associates, and ICF Resources. The winning bidder was Analysis Group that was the middle bidder

The Analysis Group won because Levitan and Associates, the lowest price bidder, did not fully address all the bid requirements of the RFP. They specifically did not provide a cost estimate for the SEC filing requirements addressing site 301.03(h)(1)-(2) and Site 301.03(h)(7).

Land Services

The Company received four bids for Land Services. The proposals were to cover GIS mapping and acquiring right of way services to lease/purchase land needed along Route 101 and the Town of Epping for the pipeline/LNG storage tank. The four bidders were Cornerstone Energy Services, The NLS Group, ORC Utility and Infrastructure, and Percheron. The Company awarded the bid to Cornerstone Energy Services that was the second lowest bidder. The lowest bidder was the NLS Group.

Cornerstone Energy Services was selected as the winner to provide right-of-way work, survey work, and any associated land lease work. Cornerstone Energy Services was also selected for superior experience and knowledge of NH with regard to land services compared to the other bidders. The lowest bidder, NLS Group, was not selected due to not providing a complete estimate. They only provided three months' worth of costs and no detailed labor estimates. Premier Properties was only used as a land agent to identify suitable LNG facility sites.

LNG Engineering

The Company received three bids for the LNG storage tank. The bidding scope of work indicated the tasks were to include program management, NH SEC deliverables preparation, ongoing public outreach, prepare NHPUC Filings, public testimony, and vendor/contractor pre-qualifying for engineering services for the proposed LNG storage tank. The three bidders were

Sanborn Head, Cornerstone Energy Services, and Weston Sampson-Northstar. Sanborn Head won the bid with the lowest quote and had a perfect score on their bid proposal.

Environmental

The Company received four bids for state/federal permits needed for wetlands, water quality, easements, and environmental requirements for NH SEC application. The four bidders were Normandeau Associates, TRC, VHB Engineering, and Epsilon Associates.

VHB Engineering was the winner with the second lowest bid over TRC. They were selected because they used more senior analysts/personnel than TRC, which would have used more junior level personnel. TRC's bid also did not address costs associated with the Fire Safety and Emergency Response Plans. Epsilon Associates was brought in to perform minor air emissions at the LNG facility.

Pipeline Engineering

There were seven bidders for the pipeline engineering bids. The bids were to include project administration, survey, engineering, design, permitting, environmental support, and construction. The seven bidders were BL Companies, CHA Consultants, CHI Engineering, Cornerstone Energy Services, Project Consulting, Trimont, and Sanborn Head.

Chi Engineering was the winner with a bid priced in the middle. The deciding factor was the bid was complete and all the work was done internally. The other bidders did not submit complete bids that included boring costs, survey, and other administrative costs.

Conceptual Engineering

The Company received four bids for conceptual engineering. The bids were for preliminary engineering to study routing, permitting, licensing, environmental review for the installation of 25 miles of 16 inch coated steel natural gas pipeline from Manchester to the seacoast in NH. The four bidders were Sanborn Head, BL Companies, CHA Consulting, and CHI Engineering.

The Company indicated CHA consulting was the winner of the bid and they were the most expensive with a \$79k bid. The Company determined the lowest bidder CHI Engineering drastically underestimated the amount of labor hours needed to do the work. The other bidders were close but the Company liked the experiences of working with CHA Consulting.

Summary

Based on a review of FERC accounts 183.1 Preliminary Natural Gas Survey and Investigative charges and 183.2 Other Preliminary Survey and Investigative charges, since the Granite Bridge project was abandoned, the \$7,092,154 booked to account # 8840-2-0000-10-1615-1830 should not be capitalized but rather expensed. Any 183.1 account costs should be

expensed to account #338 Unsuccessful Exploration and Development Costs. All 183.2 account costs should be expensed to 426.5 Other Deductions, or appropriate operating expense account.

Since the Granite Bridge project was never completed, the \$392,979 booked to CWIP account # 8840-2-0000-10-1618-1070 are not used and useful or in service. The (\$5,817) credit booked to Miscellaneous Deferred Debits account # 8840-2-0000-10-1920-1860 relate to Liberty Utilities Canada charges that should be written off. The \$10,172 VHB charges that were invoiced but not accrued to the GL should be expensed to the appropriate account and written off. The \$180 Gradient invoice overpayment should be booked to the correct expense account and written off.

8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	\$7,092,154
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	(\$5,817)
8840-2-0000-10-1618-1070	Construction Work in Progress	<u>\$392,979</u>
	Total Proposed for Recovery booked to GL	\$7,479,317

The following are GL Adjustments to invoices identified by the Company that have not been booked to the GL.

Gradient	Overpayment (typo)	(\$180)
Vanasse Hangen Brustlin	Invoice 326766 approved/not yet paid	<u>\$10,172</u>
Total proposed for Recovery	not yet accrued/GL adjustments	\$7,489,309

Below summarizes what Audit recommends to clear the Project out of the general ledger accounts in which the costs are currently recorded:

8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	(\$7,092,154)
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	5,817
8840-2-0000-10-1618-1070	Construction Work in Progress	(\$392,979)
	Gradient-Overpayment(typo)	\$180
	VHB Invoice not yet paid/accrued	<u>(\$10,172)</u>
	Audit Recommendation for Recovery	\$0

**Audit Issue #1
Granite Bridge Project**

Background

On November 20, 2020 in the DaFonte/Killeen/Mullen testimony, the Company proposed to recover roughly \$7.5 million in Granite Bridge costs. The costs were noted in:

8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	\$7,092,154
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	(\$5,817)
8840-2-0000-10-1618-1070	Construction Work in Progress	<u>\$392,979</u>
	Total Proposed for Recovery booked to GL	\$7,479,317

Issue

Based on a review of FERC accounts 183.1 Preliminary Natural Gas Survey and Investigative charges and 183.2 Other Preliminary Survey and Investigative charges, since the Granite Bridge project was abandoned, the \$7,092,154 booked to account # 8840-2-0000-10-1615-1830 should not be capitalized but rather expensed. Any 183.1 account costs should be reclassified to account #338 Unsuccessful Exploration and Development Costs. All 183.2 account costs should be expensed to 426.5 Other Deductions, or appropriate operating expense account.

The (\$5,817) credit booked to Miscellaneous Deferred Debits account # 8840-2-0000-10-1920-1860 relate to Liberty Utilities Canada charges that should be written off.

Since the Granite Bridge project was never completed, the \$392,979 booked to CWIP account # 8840-2-0000-10-1618-1070 are not used and useful or in service.

The following are GL Adjustments to invoices identified by the Company that have not been booked to the GL.

Gradient	Overpayment (typo)	(\$180)
Vanasse Hangen Brustlin	Invoice 326766 approved/not yet paid	<u>\$10,172</u>
Total proposed for Recovery /not yet accrued/GL adjustments		\$7,489,309

The \$180 Gradient invoice overpayment should be booked to the correct expense account and written off.

The \$10,172 VHB charges that were invoiced but not accrued to the GL should be expensed to the appropriate GL account and written off.

As noted in the Summary section, below represents the recommended activity to clear the costs out of the general ledger:

8840-2-0000-10-1615-1830	Preliminary Survey and Investigation	(\$7,092,154)
8840-2-0000-10-1920-1860	Miscellaneous Deferred Debits	5,817
8840-2-0000-10-1618-1070	Construction Work in Progress	(\$392,979)
	Gradient-Overpayment(typo)	\$180
	VHB Invoice not yet paid/accrued	<u>(\$10,172)</u>

Audit Recommendation for Recovery **\$0**

Recommendation

The Company should not recover any of the Granite Bridge costs incurred, as the proposed capital project never moved forward.

Company Comment

The Company is aware of the FERC accounting rules with respect to the various accounts cited in Audit Issue #1, above. However, the accounting rules are not determinative of the Company’s request for cost recovery. The Company’s request is supported by the many valid reasons discussed in the Company’s November 20, 2020, Supplemental Testimony, which show that these costs were necessary to assess and pursue the least-cost resource alternative to meet the natural gas demand needs of EnergyNorth’s customers in accordance with the Company’s Commission-approved resource planning standards and decision-making process. While it is appropriate for the Audit Report to comment on the Company’s accounting treatment of the costs on its books, it is inappropriate for the report to opine on the ultimate question of cost recovery, as it is beyond the scope of the audit and does not address the facts that support cost recovery. Staff’s position and recommendations with respect to cost recovery are more appropriately addressed in testimony.

In addition, the Company notes that it provided numerous invoices supporting its request for cost recovery and overall the Audit Staff did not identify any issues with the substance of the costs in the invoices that were reviewed. Although Audit Staff stated that it was unable to complete its review of certain items due to the time frame of the audit, the Company notes that it responded promptly to the audit requests, had only one open audit request at the time the Audit Staff ended its review, and did not hinder the Audit Staff’s internal deadline for completion of the audit.

The Company looks forward to further constructive discussions of its cost recovery request as the rate case proceeding progresses.

Audit Response

Audit appreciates the response by the Company, and reminds the Company that a review of the invoices, where they were booked, and the ultimate accounting treatment of them were the

focus of the audit work. Based on the FERC Uniform System of Accounts, costs booked to the Preliminary Survey and Investigative Charges, Construction Work in Progress, and Miscellaneous Deferred Debits accounts relating to a project that was not completed or put into service, should be written off to the account(s) included in the Audit Issue.

The conclusion to recover zero dollars from ratepayers is based on the representation of what the Company requested to recover vs. what the accounting details, as a result of the audit work, concluded. Audit does appreciate timely communication and documentation during the course of the test work.