

STATE OF NEW HAMPSHIRE

Department of Energy
Intra-Department Communication

DATE: July 10, 2023

FROM: Division of Enforcement, Audit Staff

SUBJECT: Bedford Waste Services Corporation
DW 22-058, Step 1-Pumps Replaced in 2022
FINAL Audit Report

TO: Tom Frantz, Director, Regulatory Division
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Introduction

Bedford Waste Services Corporation (Bedford or Company) serves a total of 78 customers in the Town of Bedford. A settlement agreement relating to permanent rates was filed in docket DW 22-058 on June 28, 2023, detailing among other things, that a hearing on the petition for permanent rates was rescheduled from July 19, 2023 to July 12, 2023. Settlement section 4.5 details the step increases for pump replacements in 2022 and 2023. Section 4.5.1 describes the 2022 pump replacements, identified as Step 1, at a cost of \$31,506. Section 4.5.2 describes the 2023 Step 2 Limited pump replacements at an anticipated cost of \$12,000 for three pump replacements.

The Department of Energy Regulatory division requested an audit be conducted for the seven 2022 pump replacements and related expenses totaling \$31,506. Invoices supporting the \$31,506 were provided to the Department of Energy in response to a data request #2-8. The Regulatory division provided the invoices to the Audit staff.

The settlement agreement was submitted to the docket, and has not yet been approved by the NH PUC.

Settlement Agreement Attachment B, Schedule 1, Bates page 31 reflects the following:

Step 1 based on 2022 Pump Replacements-7 Pumps

Pumps:	Location	Costs	Annual Depreciation	Accumulated Depreciation
01/08/2022	272 Pulpit Road	\$ 635	\$ 91	\$ 45
01/13/2022	272 Pulpit Road	\$ 3,353	\$ 479	\$ 239
01/24/2022	223 Pulpit Road	\$ 450	\$ 64	\$ 32
01/26/2022	223 Pulpit Road	\$ 290	\$ 41	\$ 21
01/26/2022	223 Pulpit Road	\$ 3,477	\$ 497	\$ 248
04/27/2022	260 Pulpit Road	\$ 510	\$ 73	\$ 36
04/27/2022	260 Pulpit Road	\$ 3,943	\$ 563	\$ 282
08/14/2022	3 Pond Point Drive	\$ 585	\$ 84	\$ 42
08/16/2022	3 Pond Point Drive	\$ 3,933	\$ 562	\$ 281
09/20/2022	9 Rockbound Road	\$ 635	\$ 91	\$ 45
09/21/2022	9 Rockbound Road	\$ 3,696	\$ 528	\$ 264
10/28/2022	254 Pulpit Road	\$ 760	\$ 109	\$ 54
10/31/2022	254 Pulpit Road	\$ 460	\$ 66	\$ 33
10/31/2022	254 Pulpit Road	\$ 4,631	\$ 662	\$ 331
12/09/2022	4 Three Corners Road	\$ 375	\$ 54	\$ 27
12/09/2022	4 Three Corners Road	\$ 3,774	\$ 539	\$ 270
	sum of rounded dollars	\$31,507	\$ 4,503	\$ 2,250
	Actual totals per Bates page 31	\$31,506	\$ 4,501	\$ 2,250
	immaterial variance due to rounding	\$ 1	\$ 2	\$ -

Calculated Taxes per Settlement Agreement, Bates page 31

The settlement agreement Bates page 31 also reflects an estimated state utility property tax impact of \$178. Audit verified that that tax impact was calculated:

2022 Pump additions	\$31,506
Annual depreciation	<u>\$ (4,501)</u>
Net Utility Plant	\$27,005 * \$6.60 per \$1,000 = \$178.23

Similarly, the Town of Bedford Property taxes estimate of \$444 was based on:

2022 Pump additions	\$31,506
Annual depreciation	<u>\$ (4,501)</u>
Net Utility Plant	\$27,005

2022 Bedford Tax Rate \$17.60, less the municipal portion of the statewide property tax, \$1.17. The resulting tax rate of \$16.43 per \$1,000 *27.005 = \$443.69.

Audit verified with the NH Department of Revenue that the utility property tax appraisal uses one of two methods. The Direct Capitalization method does reflect the book cost of the assets less accumulated depreciation.

Lastly, the settlement attachment shows a calculated NH Business Profits Tax estimate of \$-0-. The NH Department of Revenue website reflects the BPT rate, on or after December 31, 2023 at 7.5%, down from 7.6% on or after December 31, 2022. The Business Enterprise rate of 0.55% was in place for the taxable periods on or after both December 31, 2022 and 2023. The tax filing threshold, for taxable periods on or after 12/31/2022 was gross business income in excess of \$92,000 and 1/1/2023 through 12/31/2024 in excess of \$103,000. Audit concurs with the \$-0- estimate, based on the 2022 NH PUC annual report income statement that showed a net loss of \$3,697.

Continuing Property Records (CPR)

The Company provided the CPR for the 2022 pump replacements, which reflected the address of each, date of acquisition, estimated life, cost, depreciation rate and expense, and accumulated depreciation. Each record indicated an estimated life of seven years, depreciating at a rate of 14.29%. The annual depreciation reflected on the filing was recalculated. The accumulated depreciation correctly reflects the ½ year convention. While the 14.29% rate was not explicitly included in the DW 22-058 rate case settlement agreement attachment, the calculated depreciation expenses therein reflect that rate.

Utility Plant in Service

The Utility Plant in Service as reported for the years 2021 and 2022, in the NH PUC annual report, schedule F-8 reflected the following:

Account	Balance 12/31/2020	Additions 12/31/2021	Retirements 12/31/2021	Balance 12/31/2021	Additions 12/31/2022	Retirements 12/31/2022	Balance 12/31/2022
371 Pumping Equipment	\$ 190,868	\$ 26,353	\$ (14,187)	\$ 203,034	\$ 31,506	\$ (12,666)	\$ 221,874
380 Trtmnt and Disposal Equip	\$ 299,643	\$ -	\$ -	\$ 299,643	\$ -	\$ -	\$ 299,643
382 Outfall Sewer Lines	\$ 76,563	\$ -	\$ -	\$ 76,563	\$ -	\$ -	\$ 76,563
389 Other Plant and Misc	\$ 67,762	\$ -	\$ -	\$ 67,762	\$ -	\$ -	\$ 67,762
Total Utility Plant in Service	\$ 634,836	\$ 26,353	\$ (14,187)	\$ 647,002	\$ 31,506	\$ (12,666)	\$ 665,842

As noted in the December 22, 2022 DW 22-058 audit report, the general ledger account numbers below do not correspond to the account on the PUC annual report:

<u>Utility Account Name and GL #</u>	<u>Located in Annual Report</u>
Trans. and Distribution Mains 360.0	382, Outfall Sewer Lines
Other Tangible Plant 389.4	380, Treatment and Disposal Equipment/Facilities

The 12/2022 report identified this as an issue, to which the Company responded:

“...Bedford’s plant does not fit neatly in the sewer plant account. The costs associated with mains between the septic tanks and the leach fields are reflected in account 360. The costs associated with the leach fields are reflected in account 389. The costs have been reflected in such accounts since the original construction and report that way. If NHDOE auditors feel that 382 and 380 are more appropriate, please advise.”

Audit noted that [a]lthough Audit understands the Company’s reasoning, regarding the internal classification of certain accounts, the general ledger needs to conform with the Uniform Classification of Accounts for Sewer Utilities.”

Given the response relative to the plant accounts, Audit recommends that the Company align the annual reports with the actual general ledger accounts. For clarity, the Company should continue to use the general ledger accounts they have been using, and reflect those balances on the associated line items on the annual report. The reason for changing the line item locations on the schedule F-8 should be included in the first year the relocation of the plant account balances is done.

Pumping Equipment, Account #371.3

The reported 2022 Pumping Equipment additions were verified to invoices from AAA Pump Service, Inc. and Maznek Septic Service, LLC. Each invoice specified the location of the service and the date, and included descriptions of the service provided. In each of the seven instances, the call originated due to a customer reporting an alarm sounding. AAA Pump Service, Inc. responded, assessed the alarm cause, and replaced faulty pumps, gate valves, junction boxes, floats, etc. as necessary. In each instance, the removal of the original assets was included in the AAA Pump Service, Inc. total cost of the service call.

The cost of removal typically is debited to Accumulated Depreciation and credited to the associated Plant in Service account, as noted within the Sewer Uniform System of Accounts, section (e)(10) Utility Plant - Additions and Retirements, B:

2. When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property. The cost of removal and the salvage value shall be charged or credited, as appropriate, to such depreciation account.

Because the invoices from AAA Pump Service, Inc. do not indicate a specific portion of the time spent removing the existing pumps and related equipment, Audit

recommends that Staff at the Department of Energy and the Company determine an percentage to use as a proxy, and apply that percentage to the total invoice.

Retirements

The Company retired pumping equipment related to the seven asset additions. Audit requested the CPR details of the retired pumps, and was provided with the records demonstrating that the new pumps did replace the following:

Address	Original per CPR	Updated CPR	TOTAL Cost
272 Pulpit Road		replace 12/2006 \$ 1,895.55	\$ 1,895.55
223 Pulpit Road	original 1995 \$ 372.17		\$ 372.17
260 Pulpit Road		replace 11/2010 \$ 2,693.77	\$ 2,693.77
3 Pond Point Drive	original 1996 \$ 487.85		\$ 487.85
9 Rockbound Road	original 1995 \$ 372.17		\$ 372.17
254 Pulpit Road		replace 7/2012 \$ 4,230.69	\$ 4,230.69
4 Three Corners Road		replace 7/2015 \$ 2,612.36	\$ 2,612.36
			\$ 12,664.56

Conclusion

Based on a review of the invoices provided, the work performed at each of the seven customer addresses, the continuing property records, and the general ledger activity, the reported additions of \$31,506 were verified to each.

As noted within the text of this report, the additions total does include the cost of AAA Pump Service, Inc. removing the original assets. As such, the \$31,506 plant in service account is overstated by the cost of removal and the Accumulated Depreciation account is understated by an equivalent immaterial amount. Audit understands that there is no rate base impact.

It is recommended that the Company and the Department of Energy Regulatory staff determine the most efficient manner of approximating a cost of removal based on the AAA Pump Service, Inc. invoices going forward.