STATE OF NEW HAMPSHIRE

DE 10 - 188

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PUBLIC UTILITIES COMMISSION
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

NHPUC 28MAY'21PM3:11

May 28, 2014

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

**Re: DE10-188 Final Audit Reports of the 2012 CORE Electric and Gas Efficiency Programs**

Dear Ms Howland:

In compliance with the Settlement Agreement dated 12/15/2010 and approved by Commission Order No. 25,189, enclosed are original Final Audit Reports of the 2012 CORE Electric and Gas Efficiency programs for:

New Hampshire Electric Cooperative, Final Audit Report dated November 12, 2013
Northern Utilities, Inc., Final Audit Report dated November 22, 2013
Unitil Energy Systems, Inc., Final Audit Report dated December 16, 2013
Public Service of New Hampshire, Final Audit Report dated March 20, 2014
Liberty Utilities (Energy North Natural Gas) Corp., Final Audit Report dated April 21, 2014
Liberty Utilities (Granite State Electric) Corp., Final Audit Report dated May 27, 2014

PUC Audit has verified with each of the Utilities that nothing within the Final Audit Reports is considered confidential. If you have any questions, please do not hesitate to contact me.

Sincerely,

Karen J. Moran

Karen J. Moran
Chief Auditor
New Hampshire Public Utilities Commission

Enclosures
Cc: Susan Chamberlin, Esq.

# New Hampshire Electric Cooperative

## Final Audit Report

**STATE OF NEW HAMPSHIRE**
**Inter-Department Communication**

**DATE:** November 12, 2013
**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** CORE Energy Programs – DE 10-188
**FINAL** NHEC Audit Report

**TO:** Tom Frantz, Director, Electric Division, NHPUC
Jim Cunningham, Analyst, Electric Division, NHPUC

## Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records related to the CORE Energy Efficiency Program for the calendar year 2012. The four participating electric utilities, Unitil Energy Services, Inc. (UES), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE) filed a joint petition for the program years 2011 through 2012. Each utility was audited individually. Audit thanks Carol Woods and Brenda Inman from NHEC for their assistance during the audit process.

## Summary of the Program

The four electric companies filed a joint proposal for the 2011-2012 CORE energy efficiency programs on August 3, 2010. On December 30, 2010, a Settlement Agreement was approved by Commission Order 25,189. The Order authorized the continuation of the following programs:

1. Energy Star Homes (ESH)
2. Home Performance with EnergyStar-fuel blind pilot PSNH and UES (HPwES)
3. Energy Star Lighting (ESL)
4. Energy Star Appliance (ESA)
5. Home Energy Assistance for low income customers (HEA) at 14.5% of SBC
6. New Equipment and Construction for large commercial and industrial customers (C&I)
7. Large C&I Retrofit
8. Small Business Energy Solutions for small C&I customers
9. Educational programs
10. certain utility specific programs

The utility specific programs outlined in the Order are:

- NHEC: Smart Start program, and High Efficiency Heat Pump program
- PSNH: Specific adaptions of programs for C&I customers, as well as its Smart Start program, services under the EnergyStar Homes Program Enhancement option (Geothermal and Air Source Heat Pump), educational enhancements for C&I Customer Partnerships, and C&I Request for Proposal for Competitive and Economic Development
- UES: Continue its Energy Efficiency on-line Tools Program

Commission Approval of 2012 Energy Efficiency Program Updates

On January 9, 2012, the Commission issued Order 25,315, approving a settlement agreement which updated the 2010 agreement. Specific updates included in the December 2011 settlement agreement are summarized below:

- Changes to budgets for NHEC, PSNH, UES, National Grid NH, Northern
- Energy Star Lighting program will now include $5 rebates for LED purchased through the catalog or retail stores
- Ten specific changes to the Residential High-efficiency Heating, Water Heating and Controls program for the gas utilities
- Changes to the Home Energy Assistance program will align the gas utilities with the electric model for income eligibility. 948 projects are anticipated to be completed (by all utilities) in 2012. The focus is on weatherization.
- Changes to the New Equipment and Construction program include LED fixtures and lamps as well as exceeding the IECC 2009 energy code
- Changes to the Large C&I Retrofit program to include LED rebates
- Changes to the Small Business Solutions program financing with National Grid and UES expanding the RGGI financing from municipal only to all C&I customers
- Changes to the Educational programs will include a new program called Lights for Learning
- PSNH proposed to reduce the Energy Star Homes program through enhancement using geothermal and air source HP option rebate from $7,500 to $4,500 per home
- Implementation at PSNH of a new Customer Engagement Program as a pilot

The Order and settlement agreement also specifically addressed "carry-over amounts" from 2010 which were to be excluded from future calculations of performance incentive for the electric utilities. The gas utilities were required to provide the final amount of 2011 unspent energy efficiency funds by 3/12/2012. The amount to include in the 2012 budget required updated budgets be presented. The gas utilities could opt to return the unspent funds to customers via the LDAC for 2012-2013.

The Home Performance with Energy Star, fuel neutral program, in place as a pilot program at PSNH and UES, will continue as previously ordered, with incentive calculated on electric measure savings only, and rebates capped at 50% of the project or $4,000, whichever is less.

Senate Bill 323

Senate Bill 323 required the PUC, in conjunction with the Energy Efficiency and Sustainable Energy (EESE) Board, to choose an independent consultant to conduct a comprehensive review and analysis of energy efficiency, conservation, demand response, and sustainable energy programs and incentives in the state, and provide recommendations for possible improvements, among other things. Vermont Energy Investment Corporation (VEIC) was chosen in December 2010. The final report was provided to the legislature on September 30, 2011. Per legislation, the total cost of the review was not to exceed $300,000 (statewide). Audit reviewed the VEIC records on file in the PUC Business Office and noted the total contract amount was $282,965. Two gas utilities and four electric utilities were assessed the invoiced costs as incurred. Specifically, the utilities were assessed by the PUC Business Office:

| | |
|---|---|
| Northern Utilities (gas) | $ 12,623 |
| EnergyNorth (gas) | $ 63,873 |
| NHEC (electric) | $ 12,428 of which $9,777 posted in 2011 and $2,651 in 2012 |
| UES (electric) | $ 26,477 |
| GSEC (electric) | $ 15,852 |
| PSNH (electric) | $152,213 |
| Total | $282,965 |

The electric utilities reflected their costs as Evaluation expenses, across each of the CORE programs. Audit verified the total for NHEC to account 24.416.50 without exception.

**CORE Program Summary**

On March 3, 2013, a final quarterly report of the 2012 CORE program was filed with the NH PUC. The following represents the totals for the statewide combined residential and commercial/industrial sectors from all electric utilities (and does not include shareholder incentive expenses):

| | Internal Administration | External Administration | Rebates Services | Internal Implementation | Marketing | Evaluation | TOTAL |
|---|---|---|---|---|---|---|---|
| GSE | $ 87,157 | $ 54,038 | $ 1,233,660 | $ 63,655 | $ 32,607 | $ 32,102 | $ 1,503,219 |
| NHEC | $ 86,643 | $ 78,801 | $ 975,953 | $ 238,048 | $ 12,395 | $ 22,563 | $ 1,414,403 |
| PSNH | $ 463,657 | $ 1,227 | $ 10,867,287 | $ 1,917,816 | $ 242,542 | $ 260,805 | $ 13,753,334 |
| UES | $ 94,410 | $ 18,900 | $ 1,335,413 | $ 560,821 | $ 39,910 | $ 68,033 | $ 2,117,487 |
| COMBINED 2012 | $ 731,867 | $ 152,966 | $ 14,412,313 | $ 2,780,340 | $ 327,454 | $ 383,503 | $ 18,788,443 |

NHEC Summary

NHEC filed its Shareholder Incentive Calculation on August 7, 2013 and a revised filing on September 12, 2013. That calculation reflected the following expense totals, which were unchanged from the March 4th quarter filing:

| | |
|---|---|
| Internal Administration | $ 86,643 |
| External Administration | $ 78,801 |
| Rebates/Services | $ 975,953 |
| Internal Implementation | $ 238,048 |
| Marketing | $ 12,395 |
| Evaluation | $ 22,563 |
| Total | $1,414,403 |

The incentive calculation by sector demonstrates actual expenses on which the incentive calculations were based:

| | | |
|---|---|---|
| Commercial and Industrial budget $491,355 * 1.05 = | $ 515,923 *11.42 = | $ 58,963 |
| Residential budget $945,950, actual expenses | $ 773,687 * 6.38 = | $ 49,363 |
| Total Incentive calculation | $1,289,610 | $108,326 |

Commission Order #25,189 authorized incentives based on actual expenses, as long as the expenses did not exceed 5% of the approved budget. Because the actual expenses in the C&I sector were reported to be $640,716, or 30% higher than the budgeted figure of $491,255, the NHEC was required to use the budget plus 5% as the figure on which to calculate the incentive for that sector. The Residential sector spent less than the amount approved in the budget, and thus used the actual expense figure of $773,687 as the basis for the incentive. NHEC posts the member incentives in the year subsequent to the year earned. Thus, the $108,326 was noted as a reconciling item on page 6 of 6 of the incentive package provided to the Commission. The 2011 incentive, also noted on page 6 of 6 was verified to the Accounting department model as an expense in October 2012. The prior year incentive is not included in the expenses on which the current year incentive is calculated.

The adjusted total of $1,289,610 does not include the net Forward Capacity market expenses, current or prior year incentive dollars, or Smart Start rebates. The amount of relating to the SB323 $2,651 was included. Audit reviewed the residential related evaluation figures in the general ledger, and determined that 37% related to residential. That percentage was applied to the SB323 amount of $2,651. The overall reduction of residential expenses would have been $970, causing the total member incentive to be $62 less than the reported $49,363 for the sector. The amount is considered immaterial and the incentive calculation is not recommended to be changed.

**Funding - NHEC $1,416,125**

Funding for the CORE program is comprised of the Energy Efficiency portion of the System Benefits Charge (SBC), the net Forward Capacity Market (FCM) revenue less expense, and interest. For 2012, the totals were:

| | |
|---|---|
| SBC | $1,351,510 |
| Net FCM | $ 39,811 |
| CORE Interest | $ 24,804 |
| Total Funding | $1,416,125 |

Verification of kWh on which SBC Charged

KWh sales were verified to the End of Month Sales Report for each month of the test year. Total kWh 750,838,647 sales were verified to the system reports without exception. Total SBC allocated to the Energy Efficiency CORE programs was $1,351,510, as properly allocated based on $.0018. General ledger activity reflected the Energy Efficiency portion of the SBC in the following revenue accounts:

#440.40 DSM Recovery-Residential
#442.40 DSM Recovery-Commercial
#442.43 DSM Recovery-PG>1000KVA
#442.44 DSM Recovery-Ski Area
#442.45 DSM Recovery-Industrial
#444.15 DSM Recovery-Lighting

Forward Capacity Market – net $39,811

NHEC FCM reflects $54,015 revenue less $14,205 expenses for net revenue of $39,811. The Accounting reconciliation includes the net figure as a reduction to the program costs. No exception. Audit verified the December revenue entries to the monthly ISO reconciliation and various journal entries without exception. Audit verified the revenue figure to the general ledger account #24.415.26 and the expenses were verified to posting within the following accounts:

| | |
|---|---|
| #24.416.45 Payroll Management | $ 2,495 |
| #24.416.49 Consultants and Legal | $11,710 |
| Total Expenses | $14,205 |

Interest - $24,804

The CORE interest rate used is the Federal Reserve's prime rate as of the first of the month for which interest is calculated. Audit verified the 3.25% rate to the quarterly interest rate letters sent to all utilities by the Director of the Gas/Water Division of the NHPUC.

The CORE calculation includes all revenue and expenses related to the CORE program, including Forward Capacity Market revenue and expense figures and the prior year's incentive expense. Total interest for 2012 was $24,804 and was recalculated without exception.

Indirect Expenses

Allocated payroll related expenses were verified to the following general ledger accounts for 2012. Allocated indirect payroll is spread among employees' assigned activity codes, and as the weekly timesheet database is updated, the indirect allocation is calculated using the hourly payroll rate divided by 2,080 hours, with the result applied to the number of hours input by the employee. Sick time is tied to activity codes and general ledger accounts and spread only as time is reported as used within the week.

| | | |
|---|---|---|
| Payroll Indirect | | |
| | #24.416.35 | $126,576 |
| | #68.416.35 | $ 4,707 |
| | | $131,283 |
| Sick Time | | |
| | #24.416.47 | $ 4,776 |
| Taxes and Benefits | | |
| | #24.416.48 | $106,421 |
| | #68.416.48 | $ 2,638 |
| | | $109,059 |

Transportation shown in account #24.416.52 represents Internal Administrative transportation to such things as PUC meetings and hearings. Account #24.416.54 represents Internal Implementation activities such as site visits. Each account can include mileage costs for Company or personal vehicle reimbursement. Company car usage includes an aggregated monthly cost for the vehicle (maintenance, registration, gas, depreciation, overhead for garage, etc.) which is then allocated based on miles driven. Personal vehicle use includes only mileage reimbursed at the IRS rate.

| | | |
|---|---|---|
| Transportation | | |
| | #24.416.52 | $ 235 |
| | #24.416.54 | $ 8,962 |
| | | $ 9,197 |

**Smart Start**

NHEC and PSNH were authorized by Commission Order 23,851 (issued 11/29/2001) to offer on-bill financing, presently referenced as Smart Start. Establishment of the revolving loan fund was originally through the SBC for PSNH. NHEC currently offers the funding option to all commercial customers, using Company funds. A revolving loan fund was not established. The following costs were noted relating to this program:

| | |
|---|---|
| Internal Administration | $ 129 |
| External Administration | $ 119 |
| Internal Implementation | $2,773 |
| Marketing | $ 6 |
| Evaluation | $ 16 |
| Total | $3,044 |

**Expense Test Summary**

Audit randomly selected a variety of expenses for review (chosen from the detailed general ledger activity).

Home Energy Assistance

From the August 2010 proposal, page 31, "This program is designed to help low income customers manage their energy use and reduce their energy burden. Basic services include insulation, weatherization, cost effective appliance and lighting upgrades, and appropriate health and safety measures. Participating customers can receive up to $5,000 in program services..."

Expenses related to the Home Energy Assistance portion of the 2012 CORE were ordered to be "at least 14.5% of the SBC budget" for 2012. Total reported actual expenses relating to the HEA were $261,238 in account 24.416.xx, activity code 117. The calculated percentage was based on the CORE expense budget figures for 2012:

| | | |
|---|---|---|
| C&I Budget for 2011 | $ 491,400 | see 12/15/2011 revised filing for 2012, page 19 |
| Residential for 2011 | $ 946,000 | see same revised filing page |
| 2011 Budget | $1,437,400 | *14.5% = $208,423 |

The total HEA expended amount represents 18% of the budget and 18.5% of the actual expenses for the program year.

Audit selected one rebate in the amount of $21,510 paid to Tri-County Community Action. The invoice, dated 11/30/2012 represented weatherization and associated administrative costs for five customers. Each rebate was noted to be within the $5,000 per participant cap outlined in the August 2010 proposal. No exception noted.

Energy Star Appliance Rebate

From page 29 of the 8/2010 joint proposal: "This program will increase the use and availability of energy efficient appliances in New Hampshire. It will be tailored to the needs of New Hampshire, but coordinated with similar national or regional initiatives. A prime objective is to raise awareness and educate consumers on the benefits of ENERGY STAR rated appliances through joint marketing, promotional, and educational materials. The program is open to all residential customers and will feature a $30 rebate (reduced from $50) for ENERGY STAR rated clothes washers, a $20 rebate for ENERGY STAR rated room air conditioners, and a $10 rebate for smart power strips. New appliances rebated in 2011 and 2012 include a $30 rebate for refrigerators, a $10 rebate for room air cleaners and a second refrigerator/freezer recycling component. Rebate levels may be adjusted during the year to meet current market conditions..."

Audit selected one rebate paid to Jaco Environmental, in the amount of $17,982. The invoice reflected 148 refrigerator rebates at a cost of $30 each, or $4,440, in compliance with the proposal, as well as an administrative and disposal charge of $13,542. No exception noted.

Energy Crafted Homes (Energy Star Homes)

Per the 8/2010 joint proposal, page 21: "The New Hampshire ENERGY STAR homes program is designed to be a market driving program, encouraging both builders and homeowners to build a new home with energy efficiency in mind. The program provides incentives in the form of rebates and services to help offset the consumer cost of building to a more energy efficient standard. The utilities will continue to offer financial incentives based on the HERS performance rating of a particular home and the energy efficient lighting, appliances and HVAC equipment installed. The HERS performance rating encourages builders and homebuyers to build an even higher performing home, all the way down to a HERS Rating of 0, which would represent a zero energy home. In additional to this incentive, HERs rater services will continue to paid through this program to assist the builder/consumer ensure that the home meets the ENERGY STAR standards. Any new, residential single family or multifamily construction project is eligible for the program, including complete rehabs of existing structures if the amount of rehab work meets the ENERGY STAR guidelines. This program encourages better building techniques in accordance with ENERGY STAR guidelines by offering incentives to build homes that are at least 20% more efficient than homes built to the 2009 International Energy Conservation Code (IECC)[14]. The program is fuel neutral and aligned with a national effort developed by the U.S. Environmental Protection Agency (EPA)..."

Audit selected one entry from the general ledger in the amount of $16,000. Documentation provided by NHEC supported 16 individual rebates for 16 new condominium units within a multi-family, low-income elderly housing complex. Each rebate summary sheet reflected the related HERS Index, that each unit was new, product rebates included one refrigerator and four energy star lighting measures, and performance rebate calculations. Each summary noted that the rebate was capped at $1,000. The cap was verified to the NHSaves website relating to the multi-family Energy Star Homes program.

Geothermal Heat Pump

From page 46 of the 8/2010 Joint Proposal, NHEC offered the following relative to the Heat Pump program: "The objective of the High Efficiency Heat Pump Program is to assist residential members to reduce their energy costs by installing high efficiency heat pump technologies. These technologies include high efficiency air source heat pumps and geothermal heat pumps...NHEC will offer this program to residential members for new construction applications in conjunction with the Energy Star Homes Program.

Audit selected one entry in the amount of $4,150 paid to H. Damon. The rebate represented $4,000 for the high efficiency heat pump, $500 rebate for ducts inside the conditioned space of the Energy Star Home qualified single family home, less a $350 HERS paid to GDS.

Small Commercial

Audit selected one rebate in the amount of $14,832 which was paid to the Depot Condo Association. The rebate helped the Association replace an existing lighting system with LED.

The total job cost was $29,664, as noted within the documentation and verified to invoices from Sabourn Electric. The benefit cost ratio was calculated to be 2.1 with the rebate at 50% of the cost. No exception noted.

Large Commercial Custom Rebate

Two rebates were selected for review. The first, in the amount of $30,000 paid to Loon Mountain Recreation Corp offset the total cost of $107,000 for 42 HKD Impulse SV10 snow guns. The snow guns replaced 42 existing snow guns. A benefit cost ratio of 6.1 was calculated for this project.

The second rebate in the amount of $19,210 was verified to a Smart Start commercial measure installation at a total cost of $64,235. The total was noted in account #24.416.19, but was offset with a credit of $45,025. The credit represented the Smart Start on-bill financing which was moved to the Smart Start general ledger account, and will be repaid in 60 equal monthly installments. The CORE rebate amount of $19,210 remained in the #24.416.19. The total project was conversion of lighting to LED at the Prospect Mountain High School in Alton, NH. An invoice from Longchamps Electric was reviewed without exception. A benefit cost ratio of 3.4 was calculated for this project.

Commercial and Industrial New Construction

Per the August 2010 joint proposal (page 37) "This program targets customers with new construction, major renovation, or failed equipment replacement projects. The program offers prescriptive and custom rebates designed to cover the lesser of a one year payback or 75% of incremental costs up to the customer's incentive cap..."

One custom rebate in the amount of $13,574 was verified to documentation supporting a total project cost of $18,098. The rebate to Purity Springs Resort represents 75% of the total cost of the Melink Intelli-hood System. The system cost from Air Solutions & Balancing, Inc. included installation of all components of a high efficiency VFD, exhaust fan VFDs and an MUA fan and VFDs, related high voltage wiring, training, and performance testing of the kitchen hoods. A benefit cost ratio of 1.0 was included in the documentation. There were no exceptions noted.

Indirect Payroll

Audit requested clarification and support for an entry coded to account #24.416.35, allocated to the Small Commercial programs in the amount of $11,313. Labor distribution screen shots noted monthly entries from January through July had been debited to the rebate category rather than payroll. The entry reclassified each of the monthly entries. No exception noted. Audit noted that the benefits overhead for the year was calculated to be 56%.

External Administration

Audit selected one entry at year end in the amount of $17,101. Support provided was an invoice from Mark Dean, PLLC for legal services provided during the month of December 2012. The total of $17,945 was properly allocated to account 416.49, CORE related, and account 928.00, Regulatory. There were no exceptions noted.

Evaluation

One entry in the amount of $5,802 was chosen for review. Documentation provided included an invoice from ERS for the NH C&I New Construction baseline study. Each of the four electric utilities was allocated a portion of the overall cost. The invoice to NHEC represented 4.5% of the $128,934.

Miscellaneous

Audit reviewed account 24.416.77 and requested clarification of a recurring monthly entry in the amount of $248. The total cost$2,978 was verified to an invoice from USI Insurance Services of NE, Inc. for executive risk-errors and omissions policy for the period 12/29/2011 through 12/29/2012. Audit was informed that this policy was not renewed for 2013.

## Carry-forward Balance

The carry-forward balance represents the availability of funds at each utility, so anticipated expenses that have not yet posted to the general ledger have already been "reserved" for future use, and are thus considered not available.

The reconciliation of program year activity to the general ledger year end posting was noted in the member incentive package provided to the Staff at the Commission.

| | 12/31/2011 | |
|---|---|---|
| **Beginning Carry-forward Balance** | $ 576,201 | |
| | | |
| SBC Funding | $1,223,287 | |
| Forward Capacity Revenue | $ 46,283 | |
| Forward Capacity Expense | $ (10,377) | |
| Interest on CORE | $ 24,305 | |
| Total Funding | $1,283,498 | |
| | | |
| Energy Efficiency Expenses | $1,222,658 | |
| 2010 Incentive booked 2011 | $ 67,758 | |
| 2011 Incentive to book 2012 | $ 102,064 | |
| Total Expenses | $1,392,480 | |
| | | |
| 2011 NET activity | $ (108,982) | |
| 2011 Carry-forward Balance | $ 467,220 | net over-collection 12/31/2011 |
| Plus Recommended Adjustments | $ 2,968 | |
| Adjusted 2011 Carry-forward | $ 470,188 | |
| | | |
| **Roll-forward to 12/31/2012:** | | |
| 2011 Carry-forward Balance | $ 467,220 | net over-collection 12/31/2011 |
| Plus 2011 incentive in 2012 | $ 102,064 | |
| Plus revised interest for 12/31/2011 | $ 156 | |
| Beginning 1/1/2012 Balance | $ 569,440 | reconciled balance per incentive page 6 of 6 and agrees with the general ledger #254.40 |
| SBC Funding | $1,351,510 | |
| Forward Capacity Revenue | $ 54,015 | |
| Forward Capacity Expense | $ (14,205) | |
| Interest on CORE | $ 24,804 | |
| Total Funding | $1,416,124 | |
| | | |
| Energy Efficiency Expenses | $1,414,067 | |
| 2011 Incentive | $ 102,064 | |
| 2011 Incentive adjusted | $ (138) | due to the recommended adjustments 2011 |
| 2012 Incentive to book 2013 | $ 108,325 | |
| Total Expenses | $1,624,318 | |
| 2012 NET activity | $ (208,194 ) | |
| **2012 Carry-forward Balance** | **$ 361,246** | **net over-collection 12/31/2012** |

**Re-CORE Regional Greenhouse Gas Initiative (RGGI) Revolving Loan Fund (RLF)**

On March 20, 2009, Granite State Electric Company d/b/a National Grid (GSE), the New Hampshire Electric Cooperative, Inc. (NHEC), Public Service Company of New Hampshire (PSNH), and Unitil Energy Systems, Inc. (UES), collectively known as the Utilities, presented a detailed proposal to expand the existing CORE energy programs which are funded through the system benefits charge (SBC). On August 19, 2009, $7,646,020 was approved by the Governor and Council. The original term of the grant was through June 30, 2010, with approved extension to December 31, 2010.

PSNH was named as the general grantee, and as such, issued invoices for services to the Sustainable Energy Division and distributed allocated amounts to GSE, NHEC, and UES. (Refer to the Final PUC Audit Report of the RE-CORE issued on June 24, 2011 for additional information)

Of the total $7,016,982 grant received by the Utilities, $1,728,000 was used to establish Revolving Loan Funds. Specifically, each utility received the following:

| | |
|---|---|
| GSE | $302,077 |
| NHEC | $200,000 |
| PSNH | $500,000 |
| UES | $725,000 |

Audit reviewed the NHEC activity within general ledger account #242.86 for both expenses and revenues. A reconciliation of the Loans System data with the general ledger was provided for the period ending 12/31/2012:

| | |
|---|---|
| Original Loan Balance | $200,000 |
| Principal Outstanding 12/31/2012 | ( 87,680) |
| Loans Issued 1/2012 | ( 4,684) |
| Available to Lend | $107,636 |

# Northern Utilities, Inc.

# Final Audit Report

# STATE OF NEW HAMPSHIRE

**Inter-Department Communication**

**DATE:** November 22, 2013

**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** Northern Utilities, Inc.
DE 10-188
**FINAL** Audit Report

**TO:** Tom Frantz, Director Electric Division NHPUC
Steve Frink, Assistant Director, Gas/Water Division NHPUC
James Cunningham, Analyst III

## Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records related to the Energy Efficiency Program for the calendar year 2012. The four participating electric utilities, Unitil Energy Systems, Inc. (UES), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE) and two gas utilities, Northern Utilities, Inc. (NU) and Energy North filed a joint petition for the program years 2011 through 2012. Each utility was audited individually. Audit thanks Chad Dixon and Karen Daniell for their timely assistance throughout the audit process.

In accordance with Commission Order #24,630 in Docket DG 06-036, NU provided the Commission with monthly summaries of expenses and recoveries related to the energy efficiency programs in effect.

## Summary

As proposed to the Commission on 9/30/2011 and revised 12/5/2011 for the calendar year 2012, Northern's energy efficiency programs included:

- Low Income Retrofit program
- Home Performance with Energy Star
- Energy Star Homes program
- Residential High Efficiency Water Heating and Controls
- Large Commercial and Industrial Retrofit
- Small Commercial and industrial Retrofit
- Commercial and Industrial Multi-family Retrofit
- Commercial and Industrial High Efficiency Heating, Water Heating and Controls

The December proposal was approved by Commission Order #25,315. Included in the Order was approval of an updated settlement agreement, which reflected, among other things:

- Changes to budgets for NHEC, PSNH, UES, National Grid NH, Northern
- Energy Star Lighting program will now include $5 rebates for LED purchased through the catalog or retail stores
- Ten specific changes to the Residential High-efficiency Heating, Water Heating and Controls program for the gas utilities
- Changes to the Home Energy Assistance program will align the gas utilities with the electric model for income eligibility. 948 projects are anticipated to be completed (by all utilities) in 2012. The focus is on weatherization.
- Changes to the New Equipment and Construction program include LED fixtures and lamps as well as exceeding the IECC 2009 energy code
- Changes to the Large C&I Retrofit program to include LED rebates
- Changes to the Small Business Solutions program financing with National Grid and UES expanding the RGGI financing from municipal only to all C&I customers
- Changes to the Educational programs will include a new program called Lights for Learning
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- Implementation at PSNH of a new Customer Engagement Program as a pilot

The Order and settlement agreement also specifically addressed "carry-over amounts" from 2010 which were to be excluded from future calculations of performance incentive for the electric utilities. The gas utilities were required to provide the final amount of 2011 unspent energy efficiency funds by 3/12/2012. The amount to include in the 2012 budget required updated budgets be presented. The gas utilities could opt to return the unspent funds to customers via the LDAC for 2012-2013.

Northern determined that the 2011 unspent funds, by sector, were $90,000 relating to Residential and $60,000 Commercial and Industrial. The Company proposed to expend the funds in 2012 and revised its budget to reflect that. The revised budgets were approved by Order #25,365 May 15, 2012. Northern did not anticipate crediting any portion of the unspent funds to customers through the 2012-2013 Winter Cost of Gas proceeding. Refer to DG 12-273 and related audit report issued on 10/22/2013.

**<u>Program Year 2012 Reported Actual Activity</u>**

The Company provided the following summary as Exhibit C in the Shareholder incentive package provided to the Commission in docket DE10-188 on May 31, 2013:

| | |
|---|---|
| Beginning Balance Over-collection | $ (145,196) |
| 2012 Program Expenses | $ 1,093,689 |
| 2012 Incentive Estimate | $ 83,615 |
| 2011 Incentive True-up | $ -0- |
| 2012 Revenue (Collections) | $(1,022,928) |
| 2012 Interest | $ (6,125) |
| Ending 2012 Under-collection | $ 3,055 |

<u>Beginning Balance</u>

The beginning balance was verified to the prior year ending balance without exception. The beginning and ending balances were verified to the 12/31/2011 and 12/21/2012 general ledger accounts:

| | 12/31/2011 | 12/31/2012 |
|---|---|---|
| #173-41-02 Accrued Revenue EE-R-NH | $ 4,029 | $101,015 |
| #173-41-06 Accrued Revenue EE-C&I-NH | $(149,224) | $ (97,960) |
| | $(145,196) | $ 3,055 |

Audit verified the rolling over/under calculations of balances, revenues, expenses, and interest at 3.25% to the monthly reports required per Order #24,630 and filed as well in the instant docket. Audit verified each monthly summary and identified immaterial rounding variances of less than $15. There were no material exceptions noted.

The program activity was verified to the model used by the Accounting department as well as to the general ledger accounts identified as the reconciling mechanism-EE. Specifically:

| | |
|---|---|
| Revenues | |
| Accounts 30-49-01-72-480-xx-xx | $ (507,746) |
| Accounts 30-49-01-72-481-xx-xx | $ (192,380) |
| Accounts 30-49-01-72-489-xx-xx | $ (322,802) |
| Accounts 30-49-01-72-495-xx-xx | $ (154,376) |
| Total Revenue | $(1,177,304) |
| Expenses | |
| Accounts 30-49-02-72-908-xx-xx | $ 1,093,689 |
| Net Income Estimated Incentive | $ 83,615 |

Audit requested clarification of the 2011 incentive true-up, which was not included in the 2012 model. Documentation provided by the Company indicated that the true-up of 10,021 took place in May 2013. The original incentive calculation had been $79,208 but should have been $69,187. Additional clarification was requested regarding the length of time taken to true-up the 12/31/2011 program year end incentive. The Company noted that it "*typically waits until the final audit report is issued before finalizing the shareholder incentive amounts with a true-up journal entry to the models and general ledger. At the time of the true-up, the shareholder incentive amounts are adjusted along with any changed related to differences in the low income allocation ratios and interest. Once the true-up adjustment is complete, the over/under collection in the models and general ledger reflect activity as if the final shareholder incentive amounts had been known and used during the program year. The 2011 calendar year CORE Gas Efficiency program filing for Northern Utilities was submitted on June 1, 2012 in Docket DE 10-188. The final audit report was issued on January 16, 2013 and the true-up was performed during the May 2013 financial close following the completion of year-end reporting requirements.*"

**Expenses**

Audit reviewed the monthly reports as filed and verified that the expenses in total for the calendar year agree with the shareholder incentive as well as the following general ledger accounts. The account numbers provide information relative to the program and the expense type:

| GL Name | GL Account # | Audits 41 | Rebates 40 | 3rd Party M&E 31 | M&E 30 | 3rd Party Marketing 21 | 3rd Party Admin 14 | Reg & General 13 | Prog Admin 10 | Design 00 | TOTAL by PROGRAM |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Low Income Retrofit | 30-49-02-72-908-01- | $ 5,525 | $ 71,933 | $ - | $ 1,647 | $ 250 | $ 11,054 | $ 11,224 | $ 20,068 | $ (16) | $ 121,685 |
| Residential Retrofit | 30-49-02-72-908-25- | $ 4,805 | $ 39,051 | $ 279 | $ 1,647 | $ 1,633 | $ 8,799 | $ 11,224 | $ 29,685 | $ 15 | $ 97,138 |
| Residential Gas Equip | 30-49-02-72-908-29- | $ - | $259,871 | $ - | $ 2,882 | $ 484 | $ 27,708 | $ 19,642 | $ 29,181 | $ - | $ 339,768 |
| Res New Construction | 30-49-02-72-908-47- | $ 14,255 | $ 52,025 | $ - | $ 961 | $ 142 | $ 2,172 | $ 6,547 | $ 25,018 | $ - | $ 101,120 |
| Lg C&I Retrofit | 30-49-02-72-908-36- | $ 2,900 | $ 63,000 | $ 9,049 | $ 1,510 | $ - | $ 2,397 | $ 10,289 | $ 12,004 | $ - | $ 101,149 |
| SC&I Retrofit | 30-49-02-72-908-49- | $ 1,455 | $ 6,095 | $ - | $ 1,784 | $ 750 | $ 5,352 | $ 12,160 | $ 27,383 | $ - | $ 54,979 |
| Lg C&I New Constrcution | 30-49-02-72-908-50- | $ - | $129,426 | $ 3,873 | $ 1,098 | $ - | $ 6,707 | $ 7,483 | $ 32,198 | $ - | $ 180,785 |
| C&I MF Com Area | 30-49-02-72-908-57- | $ 5,970 | $ 50,000 | $ - | $ 2,196 | $ - | $ 6,005 | $ 14,966 | $ 17,928 | $ - | $ 97,065 |
| | | $ 34,910 | $671,401 | $ 13,201 | $ 13,724 | $ 3,259 | $ 70,195 | $ 93,535 | $193,465 | $ (1) | $1,093,689 |

Senate Bill 323 – Vermont Energy Investment Corporation (VEIC)

Senate Bill 323 required the PUC, in conjunction with the Energy Efficiency and Sustainable Energy (EESE) Board, to choose an independent consultant to conduct a comprehensive review and analysis of energy efficiency, conservation, demand response, and sustainable energy programs and incentives in the state, and provide recommendations for possible improvements, among other things. Vermont Energy Investment Corporation (VEIC) was chosen in December 2010. The final report was provided to the legislature on September 30, 2011. Per legislation, the total cost of the review was not to exceed $300,000 (statewide). Audit reviewed the VEIC records on file in the PUC Business Office and noted the total contract amount was $282,965. Two gas utilities and four electric utilities were assessed the invoiced costs as incurred. The utilities were assessed by the PUC Business Office through February 2012:

| | | |
|---|---|---|
| Northern Utilities (gas) | $ 12,623 | $9,931 in 2011, and $2,692 in 2012 |
| EnergyNorth (gas) | 63,373 | |
| NHEC (electric) | 12,428 | |
| UES (electric) | 26,477 | |
| GSEC (electric) | 15,852 | |
| PSNH (electric) | 152,213 | |
| Total | $282,965 | |

NU reflected their costs as Evaluation expenses, split between C&I: 48%, Residential: 40%, and Low Income: 12%.

Sample Testing

Audit selected a sample of ten expenses to review in detail. The sample represents 25% of the total expenses for the year.

Low Income 30-49-02-72-908-01-40 – Rebates - $71,933

Audit selected one retrofit rebate in the amount of $19,287 which represents 27% of the total account balance of $71,933.

The documentation provided indicated that Strafford County Community Action provided weatherization for eight clients. The invoice from Strafford reflects the rebate cost, and an administrative cost, along with the client account/work order and name.

Residential Gas Retrofit 1-4 Program 30-49-02-72-908-25-xx

Rebates in account 30-49-02-72-908-25-40 reflect $39,051 of which $7,814, or 20% of the account activity was chosen for review. The invoice provided, from the Otter system, was from Quality Insulation. That company provided weatherization to seven clients for rebate and administrative costs of $18,800. NU indicated that the Otter system is not used exclusively for low income customers, but also for Home Performance with Energy Star, by the vendor, Quality Insulation. The total invoice was allocated among:

| | | |
|---|---|---|
| 30-49-02-72-908-25-14 | $ 781 | |
| 30-49-02-72-908-25-40 | $ 7,814 | selected for review |
| 30-49-02-72-908-25-41 | $ 805 | |
| 30-49-02-80-908-43-31 | $ 9,400 | |
| Total invoice | $18,800 | total invoice |

Audit requested clarification of the account 30-49-02-80-908-43-31. The account "*references the Better Building rebates for the HPwES customers. During 2012, the Company had a contract with the NH Community Development Finance Authority to provide incentives and loans to customers under the federally funded ARRA Better Buildings program, in conjunction with the existing HPwES programs (both gas and electric). The Company performed work on behalf of customer for which the NH CDFA* *reimbursed the Company (in most cased splitting the cost between the CORE funds and the Better Building funds provided by the NH CDFA).*"

Residential Gas Retrofit 1-4 Program Administration, noted in account 30-49-02-72-908-25-10 reflected $29,685. One small entry in the amount of $303 was reviewed. The documentation provided reflected the 23% allocation of the May 2012 Unitil Service Corp monthly invoice.

Residential Gas Equipment 30-49-02-72-908-29-xx

Audit reviewed two entries. One, in 908-29-10, Program Administration in the amount of $69 and one in 908-29-40 Rebates, in the amount of $98,675. The $69 was verified to an employee expense report without exception.

The rebate was verified to an invoice from Helgeson Enterprises in the amount of $99,415. The invoice was split with $98,675 posted to 30-49-02-72-908-29-40 Rebates and $740 posted to -908-29-14, 3rd Party Program Administration. The contract provided between Unitil and Helgeson Enterprises, Inc. was for rebate processing, call center, and catalog fulfillment relating to Energy Star Lighting and Consumer Products and Gas Networks.

Audit requested clarification of the process by which Helgeson submits invoices for payment. The Company summarized that Helgeson emails Unitil indicating that an invoice and supporting data is available for review. The raw text file is accessed by Unitil via the Helgeson FTP site. The data includes customer information, rebate program, qualifying equipment information, and the amount of the rebate. The data is imported in Unitil's Energy Efficiency Tracking System (EETS) for review by Unitil staff to ensure the rebates qualify and the funds are remitted to Unitil customers. The Helgeson invoice is then processed through the Unitil accounts payable system.

Residential New Construction 30-49-02-72-908-47-40 Rebates $52,025

Audit selected one entry from the general ledger, in the amount of $26,000 which represents 50% of the account balance. The documentation provided indicates a rebate paid for 26 units at the maximum $1,000 per unit. The rebate was paid to 6 Meeting Place Drive Exeter, LLC. Audit reviewed the supporting documents and noted 78 appliances were rebated $25 each for a total of $1,950 and 134 lighting fixtures at $25 each for a total of $3,350. The builder chose to apply the multi-family project rebate at the $500 base incentive plus an additional $100 per HERS point, up to a total of $1,000 per unit, inclusive of the lighting and appliance incentives. Therefore, the total rebate amount of $26,000 was based on the 26 units at the $1,000 cap.

Large Commercial and Industrial Retrofit Rebates 30-49-02-72-908-36-40

Audit reviewed the total account of $63,000 and selected one entry in the amount of $38,000 for detailed review.

The rebate provided to Velcro USA in Somersworth, NH related to a complete gas burner retrofit which had an overall cost of $232,390.

Large Commercial and Industrial New Construction 30-49-02-72-908-50-xx

Audit selected one rebate from account 908-50-40 in the amount of $40,000. The selection represents 31% of the total rebates in the account. The documentation provided included a request for payment from Palmer & Sicard, Inc for work related to installation of boilers at Rochester Manor. The total cost of the project was $277,335, begun in 2011 and completed in 2012. The rebate of $40,000 was for a Hydrotherm KN-10 condensing boiler.

Audit also selected one Program Administration entry from account 908-50-10 in the amount of $695. The amount represented the June monthly allocation 17% of NU-Common costs associated with Aerotek Energy Services. Copies of invoices were provided for mileage and hourly payments. The USC June billing summary was also included.

Commercial and Industrial Multi-family Common Area Rebates 30-49-02-72-908-57-40

Audit selected one entry of $41,200 from the total in the account of $50,000. The documentation provided reflected the rebate to Lancelot Court Condominium Association in Salem NH and the invoice for the installation of 20 high efficiency forced hot water boilers. An invoice from Chase Mechanical, LLC indicated that the total cost was $254,820. The rebate was based on 20 condensing boilers rebated at $2,000 each and 3 indirect water heaters rebated at $400 each.

## Revenue

Audit verified that the rate per them was accurately calculated without exception. Refer to the Northern Utilities rate case audit report issued October 25, 2013.

## Interest

The Energy Efficiency Program Monthly Report shows that interest is calculated based on the average (over)/under recovery balance multiplied by the prime rate, divided by 365, then multiplied by the number of days in the month. The month-end over/under recovery balance including interest is used as the beginning balance for the following month. Total interest for 2012 was $6,125.

Audit verified the interest rates reported to the prime rates of the Federal Reserve that were in effect on the first day of the month prior to the quarter start, all of which were 3.25%. Audit also verified the rates to the quarterly interest rate letters sent to all utilities by the Director of the Gas/Water Division of the NHPUC

## Other Efficiency

Audit requested and was provided with an Energy Efficiency through Better Building revolving loan fund accounting model. The model reflected the Community Development Finance Authority program began in October 2012 with a 12/31/2012 total funding of $41,915. $24,558 net lending was reflected. The revolving loan fund is not included within the CORE DE 10-188 program revenues, expenses, or general ledger. The information is included for information only. The Company provided Audit with the following explanation of the fund:

> *"The Energy Efficiency through Better Building is a loan funding source in which the Community Development Finance Authority sends funds to Northern Utilities. These funds are loaned to residential customers who pay back the loans via charges on their monthly utility bill."*

# Unitil Energy Systems, Inc.

# Final Audit Report

**STATE OF NEW HAMPSHIRE**
**Inter-Department Communication**

**DATE:** December 16, 2013
**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** CORE Energy Programs – DE 10-188
**FINAL** Audit Report
Unitil Energy Systems, Inc.

**TO:** Tom Frantz, Director, Electric Division, NHPUC
Jim Cunningham, Analyst, Electric Division, NHPUC

## Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records related to the CORE Energy Efficiency Program for the calendar year 2012. The four participating electric utilities, Unitil Energy Systems, Inc. (UES), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE) filed a joint petition for the program years 2011 through 2012. Each utility was audited individually.

Audit thanks Chad Dixon and Karen Daniell for their assistance during the audit process.

## Summary of the Program

The four electric companies filed a joint proposal for the 2011-2012 CORE energy efficiency programs on August 3, 2010. On December 30, 2010, a Settlement Agreement was approved by Commission Order 25,189. The Order authorized the continuation of the following programs:

1. Energy Star Homes (ESH)
2. Home Performance with EnergyStar-fuel blind pilot PSNH and UES (HPwES)
3. Energy Star Lighting (ESL)
4. Energy Star Appliance (ESA)
5. Home Energy Assistance for low income customers (HEA) at 14.5% of SBC
6. New Equipment and Construction for large commercial and industrial customers (C&I)
7. Large C&I Retrofit
8. Small Business Energy Solutions for small C&I customers
9. Educational programs
10. certain utility specific programs

The utility specific programs outlined in the Order are:

- NHEC: Smart Start program, and High Efficiency Heat Pump program
- PSNH: Specific adaptions of programs for C&I customers, as well as its Smart Start program, services under the EnergyStar Homes Program Enhancement option (Geothermal and Air Source

Heat Pump), educational enhancements for C&I Customer Partnerships, and C&I Request for Proposal for Competitive and Economic Development
- UES: Continue its Energy Efficiency on-line Tools Program

Commission Approval of 2012 Energy Efficiency Program Updates

On January 9, 2012, the Commission issued Order 25,315, approving a settlement agreement which updated the 2010 agreement. Specific updates included in the December 2011 settlement agreement are summarized below:
- Changes to budgets for NHEC, PSNH, UES, National Grid NH, Northern
- Energy Star Lighting program will now include $5 rebates for LED purchased through the catalog or retail stores
- Ten specific changes to the Residential High-efficiency Heating, Water Heating and Controls program for the gas utilities
- Changes to the Home Energy Assistance program will align the gas utilities with the electric model for income eligibility. 948 projects are anticipated to be completed (by all utilities) in 2012. The focus is on weatherization.
- Changes to the New Equipment and Construction program include LED fixtures and lamps as well as exceeding the IECC 2009 energy code
- Changes to the Large C&I Retrofit program to include LED rebates
- Changes to the Small Business Solutions program financing with National Grid and UES expanding the RGGI financing from municipal only to all C&I customers
- Changes to the Educational programs will include a new program called Lights for Learning
- PSNH proposed to reduce the Energy Star Homes program through enhancement using geothermal and air source HP option rebate from $7,500 to $4,500 per home
- Implementation at PSNH of a new Customer Engagement Program as a pilot

The Order and settlement agreement also specifically addressed "carry-over amounts" from 2010 which were to be excluded from future calculations of performance incentive for the electric utilities. The gas utilities were required to provide the final amount of 2011 unspent energy efficiency funds by 3/12/2012. The amount to include in the 2012 budget required updated budgets be presented. The gas utilities could opt to return the unspent funds to customers via the LDAC for 2012-2013.

The Home Performance with Energy Star, fuel neutral program, in place as a pilot program at PSNH and UES, will continue as previously ordered, with incentive calculated on electric measure savings only, and rebates capped at 50% of the project or $4,000, whichever is less.

Senate Bill 323

Senate Bill 323 required the PUC, in conjunction with the Energy Efficiency and Sustainable Energy (EESE) Board, to choose an independent consultant to conduct a comprehensive review and analysis of energy efficiency, conservation, demand response, and sustainable energy programs and incentives in the state, and provide recommendations for possible improvements, among other things. Vermont Energy Investment Corporation (VEIC) was chosen in December 2010. The final report was provided to the legislature on September 30, 2011. Per legislation, the total cost of the review was not to exceed

$300,000 (statewide). Audit reviewed the VEIC records on file in the PUC Business Office and noted the total contract amount was $282,965. Two gas utilities and four electric utilities were assessed the invoiced costs as incurred. Specifically, the utilities were assessed by the PUC Business Office (through February 2012):

| | | |
|---|---|---|
| Northern Utilities (gas) | $ 12,623 | |
| EnergyNorth (gas) | $ 63,373 | |
| NHEC (electric) | $ 12,428 | |
| UES (electric) | $ 26,477 | of which $20,830 was paid in 2011, $5,647 in 2012 |
| GSEC (electric) | $ 15,852 | |
| PSNH (electric) | $152,213 | |
| Total | $282,965 | |

The electric utilities reflected their costs as Evaluation expenses, across each of the CORE programs.

**CORE Program Summary**

On March 3, 2013, a final quarterly report of the 2012 CORE program was filed with the NH PUC. The following represents the totals for the statewide combined residential and commercial/industrial sectors from all electric utilities (and does not include shareholder incentive expenses):

| | Internal Administration | External Administration | Rebates Services | Internal Implementation | Marketing | Evaluation | TOTAL |
|---|---|---|---|---|---|---|---|
| GSE | $ 87,157 | $ 54,038 | $ 1,233,660 | $ 63,655 | $ 32,607 | $ 32,102 | $ 1,503,219 |
| NHEC | $ 86,643 | $ 78,801 | $ 975,953 | $ 238,048 | $ 12,395 | $ 22,563 | $ 1,414,403 |
| PSNH | $ 463,657 | $ 1,227 | $ 10,867,287 | $ 1,917,816 | $ 242,542 | $ 260,805 | $ 13,753,334 |
| UES | $ 94,410 | $ 18,900 | $ 1,335,413 | $ 560,821 | $ 39,910 | $ 68,033 | $ 2,117,487 |
| COMBINED 2012 | $ 731,867 | $ 152,966 | $ 14,412,313 | $ 2,780,340 | $ 327,454 | $ 383,503 | $ 18,788,443 |

UES Summary

On May 31, 2013, in compliance with the Commission Order, UES filed its Shareholder Incentive calculation.

| | |
|---|---|
| Total Residential Expenses | $ 646,896 |
| Total Low Income Expenses | $ 294,076 |
| Residential and Low Income FCM Expense | $ 6,138 |
| Less fossil portion of HPwES | $ (66,595) |
| Shareholder Incentive Residential Expense | $ 880,515 |
| | |
| Total C&I Expenses | $1,176,515 |
| Plus FCM Expenses | $ 14,324 |
| Shareholder Incentive C&I Expenses | $1,190,839 |

The total on which the incentive calculation was based was reduced by the fossil fuel related expenses associated with the HPwES fuel blind program, in accordance with the Commission Order. The reported expense total deducted was $66,595. Refer to the HPwES portion of this report for further information. Audit has continually identified the inclusion of the Forward Capacity Market expenses, for purposes of calculating the shareholder incentive, as an issue. The Company has continually stated its inclusion is a legitimate cost of the program. Audit has suggested that the Commission staff determine the accuracy of inclusion of the FCM expenses. To date the issue remains unresolved. Not all utilities include the FCM expenses in their incentive cost figures.

## FUNDING

Funding for the CORE program is comprised of the Energy Efficiency portion of the System Benefits Charge (SBC), the net Forward Capacity Market (FCM) revenue less expense, and interest on the CORE activity. For 2012 the totals were:

| | |
|---|---|
| SBC Residential | $ 728,545 |
| SBC Low Income | $ 404,025 |
| SBC C&I | $1,014,923 |
| SBC Outdoor Light | $ 15,310 |
| Net SBC | $2,162,803 |
| FCM Revenue | $ 161,852 |
| FCM Expenses | ( 20,463) |
| CORE Interest | ( 3,511) |
| Total Funding | $2,300,681 |

### SBC

KWh sales were verified to the Capital and Seacoast divisions' monthly billing reports and to the Accounting model for the CORE. SBC revenues were also verified to the general ledger accounts 10.29.21.21.44x.xx xx.

### Forward Capacity Market

UES reflects $161,851 revenue less $20,463 expenses for the net $141,388 inclusion in funding of the CORE as directed by Commission Order. The FCM expenses were (properly) not reflected in the final quarterly report to the Commission (referenced as Schedule H), but were properly outlined in the final quarterly report schedule entitled NH CORE Energy Efficiency FCM Budget & Expenses (January 1-December 31, 2012). The FCM expenses were included in the shareholder incentive calculation.

FCM revenue was verified to the general ledger account 10-29-02-21-456-80.00 and FCM expenses were verified to the following general ledger accounts:

| | | |
|---|---|---|
| 10-29-02-21-908-80-01 | Internal Administration | $10,968 |
| 10-29-02-21-908-80-02 | External Administration | $ 7,961 |
| 10-29-02-21-908-80-03 | Non Administration | $ 1,535 |
| | Total FCM Expenses | $20,463 |

INTEREST

The CORE interest rate used is the Federal Reserve's prime rate as of the first of the month for which interest is calculated. Audit verified the rate to the quarterly interest rate letters sent to all utilities by the Director of the Gas/Water Division of the NHPUC.

The CORE calculation includes all revenue and expenses related to the CORE program, including Forward Capacity Market revenue and expense figures and an estimated shareholder incentive expense. Total interest for 2012 was a net expense of ($3,511).

From month to month, the prior month's calculated interest is rolled into the balance of the subsequent month.

The CORE activity spreadsheet model includes the relevant FCM as well as an estimated 8% shareholder incentive as a program expense. The budget of $2,134,862 as presented to the Commission on December 15, 2011 reflected the 8% incentive figure to be $170,789. (see page 31 of the filing)

Audit reviewed the actual percentages of electric and non-electric costs associated with the HPwES for the year (see the HPwES portion of this report) and noted that 29% of the costs related to non-electric measures. Audit therefore, calculated 29% of the HPwES budget (251,800) to be $73,022. The total budget on which the 8% estimated incentive should have been calculated was $2,134,862 - $73,022 = $2,061,840. Incentive estimated on the revised budget calculates to $164,947 or $5,842 less.

Audit understands that the actual incentive is booked at the end of the year, with a true up the following year. Audit also understands that the model is re-run to reflect the actual incentive, and any adjustments.

Riverwoods

Commission Order #25,458, issued 1/25/2013 identified a total of $670,098 to be foregone from collection from ratepayers. Of that total, $23,253 was specifically identified as SBC Energy Efficiency. Refer to the CORE DE 10-188 2011 audit report which identified $23,253 as being deducted from the 2011 SBC revenue stream.

Due to the timing of the Order, Audit was informed by the Company that "*UES reported that it recorded $23,253 plus interest, in February 2013,*" as a funding source for the 2013 CORE program year. Audit will review the entries during the review of the 2013 CORE program year audit work.

**Expense Test Summary**

Audit selected a sample of expenses from the following general ledger accounts for detailed review. The Unitil Service Corp. monthly invoice for September 2012 was reviewed. The total invoice to UES for the month was $989,556 of which 4% or $41,196 was allocated among twelve CORE related general ledger accounts.

Home Energy Solutions/Home Performance with Energy Star (HES/HPwES)

The Settlement Agreement signed in December 2010 for the 2011/2012 CORE states that "consistent with the authorization for the 2010 (fuel blind) pilot in Order No. 24,974, ...the rebate for all HPwES programs...will be capped at the lesser of 50% of the project expenditures or $4,000..."

Of the total HPwES expenses verified to the general ledger and reported to the Commission, $228,792, the calculated non-electric savings of $66,595 was deducted from the HPwES total for incentive calculation purposes, in accordance with Commission Orders:

| | |
|---|---|
| HPwES Rebates and Audits | $117,065 |
| Less 16 electric only customer costs | $ (47,381) |
| Less 3 mixed heat | $ (1,261) |
| Less incentive for CFLs | $ (1,828) |
| Expenses related to Electric | $ (50,470) |
| Result = Non-electric costs | $ 66,595 to remove from SHI calculation |

| | |
|---|---|
| Expended on Energy Audits and Rebates | $117,065 |
| Expended on Other HPwES Program Costs | $111,727 |
| Total HPwES Program Costs | $228,792 |
| Less Non-electric costs | $ (66,595) |
| Total HPwES included in SHI | $162,197 |

Home Energy Assistance

Expenses related to the Home Energy Assistance portion of the 2012 CORE were ordered to be "at least 14.5% of the SBC budget" for 2012. Total reported expenses relating to the HEA were $294,076. The HEA budget represented 14.5% of the overall budget for 2012, or $309,555. Actual expenses were 13.8% of the total budget.

Large Commercial and Industrial Retrofit

10-29-02-21-908-33-14 Large C&I New Construction & Equipment 3rd Party Admin
From this account Audit selected one voucher in the amount of $2,340 paid to Industrial Controls on 11/13/2012. The payment represents the hourly fees incurred, in conjunction with a contract provided, to encourage participation in energy efficiency projects related to commercial lighting, variable speed drives, boilers, engineering assessments, etc.

10-29-02-21-908-33-31 Large C&I New Construction & Equipment 3rd Party M&E
From this account Audit selected the only entry in the amount of $9,601 paid to E&RS 11/9/2012. The invoice and agreement indicate that the C&I New Construction baseline evaluation study conducted across the state, represents 7.4% of the total cost.

10-29-02-21-908-33-40 Large C&I New Construction & Equipment Rebates
From this account Audit selected three specific rebates:

- $50,773 paid to Cobham Antenna Systems on 12/27/2012 is the sum of three rebates. Specifically, $20,590 was paid for CFL fixtures representing 14% of the total lighting cost; $1,425 paid for the fixture controls, and $28,758 paid for high efficiency compressed air system, representing 21% of the total cost.
- $1,835 noted as paid to "Incentive Refunds" on 9/25/2012 was verified to a lighting rebate paid to CVS Pharmacy for lamps and fixtures at the Loudon Road store in Concord.
- $25,498 paid to General Services Administration on 9/19/2012 was used for an HVAC compressor at the Cleveland Federal Office Building in Concord. The project began in 2011 and was "substantially completed" in December 2011. The final review and approval of the total project was completed in August 2012.

10-29-02-21-908-52-40 Large C&I Retrofit Rebates
From this account Audit requested documentation to support the following:

- $29,700 paid to Kohl's 2/16/2012 represents $45 per 2L4 T8 fixtures. 660 fixtures were replaced at the Plaistow store.
- $7,250 noted as paid to "Incentive Refunds" 2/24/2012 was paid to the St. Paul's School in Concord for replacement of five VFDs.
- The following three rebates paid to Concord Hospital: $71,675 6/4/2012 for occupancy sensors in the main hospital building. The rebate represents 10% of the total cost. $39,650 rebated on 6/19/2012 was for 32 VFDs in the main hospital building. The rebate represents 30% of the total cost of the VFDs. $10,450 rebated on 11/26/2012 was for a motor replacement in the main hospital building.

**Incentive for 2012**

According to the Settlement Agreement, approved by the Commission by Order 25,189, dated 12/30/2010, a performance incentive for 2012 between 0% and 12%, based on the actual expenditures rather than budgeted expenditures, for each residential and C&I sector was authorized. The Order further requested that utilities "strive to complete their performance incentives by June 1 of the subsequent year." UES provided the incentive calculation on May 31, 2013. The overall incentive noted summed to $168,684. The incentive used in the Accounting Department model was a total of $170,789 based on 8% of the budget of $2,134,863.

**Carry-forward Balance**

The carry-forward balance represents the availability of funds at each utility, so anticipated expenses that have not yet posted to the general ledger have already been "reserved" for future use, and are thus considered not available. For purposes of the rolling fund balance on the general ledger, all expenses prudently incurred, including forward capacity market, fuel neutral expenses, shareholder incentives, etc., in addition to the energy efficiency expenses, are reflected.

The reconciliation of program year activity to the general ledger year end posting was noted in the May 2013 shareholder incentive package provided to the Staff at the Commission.

| | | |
|---|---|---|
| Carry-forward Balance | $ 97,751 | **representing an under-collection at 1/1/2012** |
| | | |
| SBC Funding | $(2,162,803) | refer to page 4 of this report |
| Forward Capacity Market Revenue | $ (161,851) | refer to page 4 of this report |
| Cumulative Interest | $ (185,221) | verified to Accounting Dept. model |
| Total Funding | $(2,509,875) | |
| | | |
| Energy Efficiency Expenses | $ 2,117,487 | refer to page 3 of this report |
| Prior Year Incentive true-up | $ -0- | verified to Accounting Dept. model |
| Forward Capacity Market Expenses | $ 20,464 | refer to page 4 of this report |
| Estimated 8% Incentive | $ 170,693 | refer to page 7 and Accounting Dept. model |
| Total Expenses | $ 2,308,644 | |
| | | |
| Carry-forward "Fund" Balance | **$ (103,481)** | **representing an over-collection at 12/31/2012** |

UES maintains the net activity of the CORE in balance sheet general ledger account:

| | |
|---|---|
| 10-20-00-00-173-13-01 Residential Non-Low Income | $(125,185) over-collection |
| 10-20-00-00-173-13-02 Low Income | $ (53,516) over-collection |
| 10-20-00-00-173-13-03 Commercial and Industrial | $ 75,220 under-collection |
| 10-20-00-00-173-13-05 Outdoor Lighting | $ -0- included in C&I |
| **Net Over-collection per General Ledger** | **$(103,481)** |

The revenue and expense activity posts to the appropriate income statement accounts, and each was verified without exception. The EE related income and expense are designated with code 10-29-as the account number identifier.

**Re-CORE Regional Greenhouse Gas Initiative (RGGI) Revolving Loan Fund (RLF)**

On March 20, 2009, Granite State Electric Company d/b/a National Grid (GSE), the New Hampshire Electric Cooperative, Inc. (NHEC), Public Service Company of New Hampshire (PSNH), and Unitil Energy Systems, Inc. (UES), collectively known as the Utilities, presented a detailed proposal to expand the existing CORE energy programs which are funded through the system benefits charge (SBC). On August 19, 2009, $7,646,020 was approved by the Governor and Council. The original term of the grant was through June 30, 2010, with approved extension to December 31, 2010.

PSNH was named as the general grantee, and as such, issued invoices for services to the Sustainable Energy Division and distributed allocated amounts to GSE, NHEC, and UES. (Refer to the Final PUC Audit Report of the RE-CORE issued on June 24, 2011 for additional information).

Of the total $7,016,982 grant received by the Utilities, $1,728,000 was used to establish Revolving Loan Funds. Specifically, each utility received the following:

| | |
|---|---|
| GSE | $302,077 (adjusted) |
| NHEC | $200,000 |
| PSNH | $500,000 |
| UES | $725,000 |

The original RGGI Re-CORE grant was allocated to funding programs and to the establishment of the revolving loan fund. The total UES RGGI Re-CORE grant through 2010 was $1,682,808. Details of grant activity as summarized in the PUC Audit report dated June 24, 2011 reflect:

| | | |
|---|---|---|
| UES grant receipts | $1,682,808 | |
| UES program costs | (858,263) | |
| UES RLF | (725,000) | |
| Net excess received | $ 99,545 | |
| Transfer to PSNH | (13,888) | |
| Calculated Incentive | $ 85,657 | |
| Net Over/(Under) | $ -0- | Final Invoice |

Audit requested clarification of the RLF available to lend as of 12/31/2012 and was provided with the following grids of the RGGI RLF as well as the RGGI Re-CORE and ongoing RGGI program activities:

| | 2009 | 2010 | 2011 | YTD 2012 | Total |
|---|---|---|---|---|---|
| *Loan Activity:* | | | | | |
| Grant Money Received - Revolving Loan Fund | $ 189,503 | $ 535,497 | $ - | $ - | $ 725,000 |
| Consumer Loans | $ - | $ (106,199) | $ (123,974) | $ (376,177) | $ (606,350) |
| Loan Repayment (net of defaults) | $ - | $ 5,410 | $ 39,451 | $ 66,318 | $ 111,178 |
| Consumer Loan Admin Costs | $ - | $ (10,183) | $ (18,361) | $ 13,888 | $ (14,656) |
| Net Loan Activity per Year, not Cumulative | $ 189,503 | $ 424,525 | $ (102,885) | $ (295,971) | $ 215,172 |

The grid above represents the RGGI RLF, which at full funding was $725,000. At year-end 2012, $606,350 had been loaned, $111,178 had been repaid, and administrative costs (including a transfer of $13,888 to PSNH) in the amount of $14,656 resulted in $215,172 available to lend at 12/31/2012. Refer to the PUC Audit report of the RGGI Re-CORE dated June 24, 2011.

| | 2009 | 2010 | 2011 | YTD 2012 | Total |
|---|---|---|---|---|---|
| *Program Activity:* | | | | | |
| Grant Money Received - Programs | $ 250,355 | $ 707,453 | $ - | $ - | $ 957,808 |
| Rebates/Incentive | $ (59,846) | $ (798,417) | $ - | $ (80,098) | $ (938,361) |
| Shared Savings Incentives | $ - | $ - | $ - | $ (85,657) | $ (85,657) |
| Total Program Activity | $ 190,509 | $ (90,964) | $ - | $ (165,755) | $ (66,210) |

The above represents the initial RGGI Re-CORE grant that was approved in 2009 and completed in 2010 (through the Sustainable Energy Division of the NHPUC). The Shared Savings Incentive relates to that original program. The Rebates noted in 2012 represent the use of RGGI proceeds resulting from HB1480 and Commission Order #25,425. The total RGGI money received by Unitil was $438,456 in 2013. The use of the funds in 2012 was approved by Order 25,425.

The 908 account summary represents the Program Activity Total of $(66,210) plus the YTD Consumer Loans $(376,177) identified in the grid provided.

| | |
|---|---|
| 10-29-02-44-908-26-40 Res RGGI Retrofit 104 Rebates | $ 4,861 |
| 10-29-02-44-908-36-10 LC&I RGGI NC/Equip Prog Admin | $ 12,434 |
| 10-29-02-44-908-36-40 LC&I RGGI NC/Equip Rebates | $ 35,308 |
| 10-29-02-44-908-41-14 LI RGGI Retrofit 1-4 3rd Party Admin | $ 1,453 |
| 10-29-02-44-908-41-40 LI RGGI Retrofit 1-4 Rebates | $ 13,995 |
| 10-29-02-44-908-41-41 LI RGGI Retrofit 1-4 Energy Audits | $ 920 |
| 10-29-02-44-908-43-13 C&I RGGI RLF 3rd Party Costs | $ (9,027) |
| 10-29-02-44-908-43-14 C&I RGGI RLF Loan Buydown | $ 282,169 |
| 10-29-02-44-908-43-21 Res RGGI RLF 3rd Party Costs | $ (4,861) |
| 10-29-02-44-908-43-22 Res RGGI RLF Loan Buydown | $ 87,607 |
| 10-29-02-44-908-43-25 RGGI LI Financing Loan Buydown | $ 6,401 |
| 10-29-02-44-908-52-10 LC&I RGGI Retrofit Prog Admin | $ 2,100 |
| 10-29-02-44-908-52-41 LC&I RGGI Retrofit Energy Audits | $ 9,027 |
| Total RGGI Expenses 2012 | $ 442,387 |

The loan repayment, net of defaults, identified in the grid was verified to the following general ledger accounts.

| | |
|---|---|
| 10-29-01-44-456-00-01 Loan Payback RGGI Res | $ (60,761) |
| 10-29-01-44-456-00-02 Loan Write-off RGGI Res | $ 3,046 |
| 10-29-01-44-456-01-01 Loan Payback RGGI Low Income | $ (476) |
| 10-29-01-44-456-01-02 Loan Write-off RGGI Low Income | $ 4,488 |
| 10-29-01-44-456-02-01 Loan Payback RGGI C&I | $ (12,615) |
| Repayment and Write-off Activity 2012 | $ (66,318) |

The 12/2012 net RLF and Program Activities total was verified to the total of the three accounts noted:

| | |
|---|---|
| 10-29-01-44-449-01-00 Accrued Revenue RGGI Res Non-LI | $ (60,013) |
| 10-29-01-44-449-02-00 Accrued Revenue RGGI Low Income | $ (40,620) |
| 10-29-01-44-449-03-00 Accrued Revenue RGGI Res C&I | $(361,093) |
| RGGI related activity 2012 | $(461,726) |

An Accounting model differentiates the program activities and the lending activities. There were no exceptions noted.

# Public Service of New Hampshire

# Final Audit Report

**STATE OF NEW HAMPSHIRE**
**Inter-Department Communication**

**DATE:** March 20, 2014
**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** CORE Energy Programs – DE 10-188
**FINAL** PSNH Audit Report

**TO:** Tom Frantz, Director, Electric Division, NHPUC
Jim Cunningham, Analyst, Electric Division, NHPUC

## Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records related to the CORE Energy Efficiency Program for the calendar year 2012. The four participating electric utilities, Unitil Energy Services, Inc. (UES), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE) and two gas companies, Energy North and Northern Utilities, Inc., filed a joint petition for the program years 2011 through 2012. Each utility was audited individually.

Audit thanks Issa Ansara and Pam Moriarty from PSNH for their assistance during the audit process.

## Summary of the Program

The four electric companies filed a joint proposal for the 2011-2012 CORE energy efficiency programs, dated August 2, 2010, and received by the Commission on August 3, 2010. On December 30, 2010, a Settlement Agreement was approved by Commission Order 25,189. The Order authorized the continuation of the following programs:

1. Energy Star Homes (ESH)
2. Home Performance with EnergyStar-fuel blind pilot PSNH and UES (HPwES)
3. Energy Star Lighting (ESL)
4. Energy Star Appliance (ESA)
5. Home Energy Assistance for low income customers (HEA) at 14.5% of SBC for 2011 and 15% for 2012.
6. New Equipment and Construction for large commercial and industrial customers (C&I)
7. Large C&I Retrofit
8. Small Business Energy Solutions for small C&I customers
9. Educational programs
10. certain utility specific programs

The utility specific programs outlined in the Order are:

- NHEC: Smart Start program, and High Efficiency Heat Pump program
- PSNH: Specific adaptions of programs for C&I customers, as well as its Smart Start program, services under the EnergyStar Homes Program Enhancement option (Geothermal and Air Source Heat Pump), educational enhancements for C&I Customer Partnerships, and C&I Request for Proposal for Competitive and Economic Development
- UES: Continue its Energy Efficiency on-line Tools Program

Commission Approval of 2012 Energy Efficiency Program Updates

On January 9, 2012, the Commission issued Order 25,315, approving a settlement agreement which updated the 2010 agreement. Specific updates included in the December 2011 settlement agreement are summarized below:

- Changes to budgets for NHEC, PSNH, UES, National Grid NH, Northern
- Energy Star Lighting program will now include $5 rebates for LED purchased through the catalog or retail stores
- Ten specific changes to the Residential High-efficiency Heating, Water Heating and Controls program for the gas utilities
- Changes to the Home Energy Assistance program will align the gas utilities with the electric model for income eligibility. 948 projects are anticipated to be completed (by all utilities) in 2012. The focus is on weatherization.
- Changes to the New Equipment and Construction program include LED fixtures and lamps as well as providing incentives on measures which exceed the IECC 2009 energy code
- Changes to the Large C&I Retrofit program to include LED rebates
- Changes to the Small Business Solutions program financing with National Grid and UES expanding the RGGI financing from municipal only to all C&I customers
- Changes to the Educational programs will include a new program called Lights for Learning
- PSNH proposed to reduce the Energy Star Homes-Geothermal and Air Source HP Option rebate from $7,500 to $4,500 per home
- Implementation at PSNH of a new Customer Engagement Program as a pilot

The Order and settlement agreement also specifically addressed "carry-over amounts" from 2010 which were to be excluded from future calculations of performance incentive for the electric utilities. The gas utilities were required to provide the final amount of 2011 unspent energy efficiency funds by 3/12/2012. The amount to include in the 2012 budget required updated budgets be presented. The gas utilities could opt to return the unspent funds to customers via the LDAC for 2012-2013.

The Home Performance with Energy Star, fuel neutral program, in place as a pilot program at PSNH and UES, will continue as previously ordered, with incentive calculated on electric measure savings only, and rebates capped at 50% of the project or $4,000, whichever is less.

## Senate Bill 323

Senate Bill 323 required the PUC, in conjunction with the Energy Efficiency and Sustainable Energy (EESE) Board, to choose an independent consultant to conduct a comprehensive review and analysis of energy efficiency, conservation, demand response, and sustainable energy programs and incentives in the state, and provide recommendations for possible improvements, among other things. Vermont Energy Investment Corporation (VEIC) was chosen in December 2010. The final report was provided to the legislature on September 30, 2011. Per legislation, the total cost of the review was not to exceed $300,000 (statewide). Audit reviewed the VEIC records on file in the PUC Business Office and noted the total contract amount was $282,965. Two gas utilities and four electric utilities were assessed the invoiced costs as incurred. Specifically, the utilities were assessed by the PUC Business Office (through February 2012):

| | | |
|---|---|---|
| Northern Utilities (gas) | $ 12,623 | |
| EnergyNorth (gas) | $ 63,873 | |
| NHEC (electric) | $ 12,428 | |
| UES (electric) | $ 26,477 | |
| GSEC (electric) | $ 15,852 | |
| PSNH (electric) | $152,213 | of which $119,748 was paid in 2011, $32,465 in 2012 |
| Total | $282,965 | |

The electric utilities reflected their costs as Evaluation expenses, across each of the CORE programs.

## CORE Program Summary

On March 3, 2013, a final quarterly report of the 2012 CORE program was filed with the NH PUC. The following represents the totals for the statewide combined residential and commercial/industrial sectors from all electric utilities (and does not include shareholder incentive expenses):

| | Internal Administration | External Administration | Rebates Services | Internal Implementation | Marketing | Evaluation | TOTAL |
|---|---|---|---|---|---|---|---|
| GSE | $ 87,157 | $ 54,038 | $ 1,233,660 | $ 63,655 | $ 32,607 | $ 32,102 | $ 1,503,219 |
| NHEC | $ 86,643 | $ 78,801 | $ 975,953 | $ 238,048 | $ 12,395 | $ 22,563 | $ 1,414,403 |
| PSNH | $ 463,657 | $ 1,227 | $ 10,867,287 | $ 1,917,816 | $ 242,542 | $ 260,805 | $ 13,753,334 |
| UES | $ 94,410 | $ 18,900 | $ 1,335,413 | $ 560,821 | $ 39,910 | $ 68,033 | $ 2,117,487 |
| COMBINED 2012 | $ 731,867 | $ 152,966 | $ 14,412,313 | $ 2,780,340 | $ 327,454 | $ 383,503 | $ 18,788,443 |

PSNH Summary

On May 31, 2013, in compliance with the Commission Order, PSNH filed its Shareholder Incentive Calculation, which reflected the total utility cost to be **$13,753,600** (see page 1a of 7). Page 3 of 7 summarized the total on which the calculation was made:

| | |
|---|---|
| Commercial & Industrial Actual | $ 7,494,879 |
| Residential Actual | $ 5,659,005* |
| Total on which Incentive was based | **$13,153,884** |

*net of fossil fuel related costs and Smart Start rebates and Internal Implementation

| | Internal Admin | External Admin | Customer Audits | Rebates/ Services | Internal Implmntn | Marketing | Evaluation | SmartStart Bad Debt | SmartStart Incentive | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| ES Homes | $ 32,418 | $ 900 | $ - | $ 779,241 | $ 90,516 | $ 6,887 | $ 17,963 | $ - | $ - | $ 927,925 |
| HPwES | $ 59,173 | $ - | $ - | $ 938,325 | $ 300,998 | $ 11,434 | $ 33,515 | $ - | $ - | $ 1,343,445 |
| less fuel neutral in HPwES | | | | $ (584,790) | | | | | | $ (584,790) |
| ES Appliances | $ 24,654 | $ - | $ - | $ 638,779 | $ 36,423 | $ 13,183 | $ 9,847 | $ - | $ - | $ 722,886 |
| HEA | $ 68,224 | $ - | $ - | $ 1,899,172 | $ 119,432 | $ - | $ 15,758 | $ - | $ - | $ 2,102,586 |
| Lighting | $ 26,702 | $ - | $ - | $ 498,888 | $ 58,432 | $ 181,328 | $ 11,290 | $ - | $ - | $ 776,640 |
| ES Geothermal | $ 12,350 | $ - | $ - | $ 286,940 | $ 28,443 | $ - | $ - | $ - | $ - | $ 327,733 |
| Customer Engage | $ 4,870 | $ - | $ - | $ - | $ 37,709 | $ - | $ - | $ - | $ - | $ 42,579 |
| Total Residential | $ 228,391 | $ 900 | $ - | $ 4,456,555 | $ 671,953 | $ 212,832 | $ 88,373 | $ - | $ - | $ 5,659,004 |
| | | | | | | | | | | |
| C&I New | $ 58,772 | $ - | $ 45,789 | $ 1,624,194 | $ 256,103 | $ 1,000 | $ 65,356 | $ - | $ - | $ 2,051,214 |
| Large C&I Retrofit | $ 71,287 | $ - | $ 253,737 | $ 1,386,767 | $ 452,533 | $ 3,234 | $ 24,764 | $ - | $ - | $ 2,192,322 |
| Small C&I Retrofit | $ 88,863 | $ 327 | $ 57,435 | $ 2,098,668 | $ 469,543 | $ 24,493 | $ 77,158 | $ - | $ - | $ 2,816,487 |
| Educational | $ - | $ - | $ - | $ 68,645 | $ 33,487 | $ 608 | $ - | $ - | $ - | $ 102,740 |
| RFP Pilot | $ 16,345 | $ - | $ 10,764 | $ 279,944 | $ 19,534 | $ 375 | $ 5,154 | $ - | $ - | $ 332,116 |
| Total C&I | $ 235,267 | $ 327 | $ 367,725 | $ 5,458,218 | $ 1,231,200 | $ 29,710 | $ 172,432 | $ - | $ - | $ 7,494,879 |
| | | | | | | | | | | |
| **subtotal Residential and C&I** | **$ 463,658** | **$ 1,227** | **$ 367,725** | **$ 9,914,773** | **$ 1,903,153** | **$ 242,542** | **$ 260,805** | **$ -** | **$ -** | **$ 13,153,883** |
| | | | | | | | | | | |
| Residential Incentive | | | | $ 463,311 | | | | | | $ 463,311 |
| C&I Incentive | | | | $ 596,830 | | | | | | $ 596,830 |
| Total Incentive | $ - | $ - | $ - | $ 1,060,141 | $ - | $ - | $ - | | | $ 1,060,141 |
| | | | | | | | | | | |
| TOTAL 2012 | $ 463,658 | $ 1,227 | $ 367,725 | $ 10,974,914 | $ 1,903,153 | $ 242,542 | $ 260,805 | $ - | $ - | $ 14,214,024 |
| | | | | | | | | | | |
| SmartStart | $ - | $ - | $ - | $ 229 | $ 14,663 | $ - | $ - | $ (33,286) | $ 39,944 | $ 21,550 |

For calculation of incentive, the fuel neutral HPwES figure was properly deducted from the energy efficiency expenses. Smart Start costs, incentives, and bad debt reserve were also properly not included in the calculation of the shareholder incentive.

The Model used by PSNH to account for the direct and indirect costs associated with the CORE reflects the following:

| | |
|---|---|
| $13,760,222 | Total Expenses (excluding incentives) per Model |
| $ (39,944) | less Smart Start incentive |
| $ 33,286 | plus Smart Start Bad Debt |
| $13,753,600 | Sub-total expenses |
| $ (584,790) | Fuel neutral expenses deducted from HPwES per footnote |
| $ (14,926) | Smart Start rebates and internal implementation (within $34) |
| $13,153,884 | Total used for incentive calculation |

**FUNDING - $16,047,656**

Funding for the CORE program is comprised of the Energy Efficiency portion of the System Benefits Charge (SBC), the net Forward Capacity Market (FCM) revenue less expense, interest on both the CORE activity and the interest calculated on the RSA 125-O 2% set aside. For 2012, the totals were:

| | |
|---|---|
| SBC | $14,114,377 |
| | |
| FCM Revenue | $ 1,933,146 |
| FCM Expenses | $ (116,550) |
| Net FCM | $ 1,816,596 |
| | |
| CORE Interest | $ 97,183 |
| 2% Interest | $ 19,500 |
| Total Funding | $16,047,656 |

VERIFICATION of kWh on which SBC Charged

PSNH kWh sales were verified to the summary detail of Large Power Billings (LPB) report "Current Monthly Summary of Delivery Service by Rate and Class" plus the C2 "Delivery Sales and Revenue by Class, Rate and Component". The kWh on which the total SBC $0.0033 was charged was tested for compliance for the month of December 2012. Of the total $2,190,307 SBC collected, $1,194,713 was properly allocated to the CORE and $995,594 to the EAP ($0.0018 and $0.0015 respectively). The full 2012 year was verified in the EAP audits of the program years 11 and 12 without exception.

Forward Capacity Market

PSNH FCM reflects $1,933,146 revenue less $116,550 expenses. The PSNH Accounting model reflects individual lines for revenue and for expenses. The model shows revenues which are $1,933,146 while the work order detail supports a total revenue figure of $1,932,146. The $1,000 difference noted in February was seen in the work order revenue portion, but included as an additional expense in the expense line for the month. The net difference for February, and thus the entire 2012, was zero. No exception. Audit reviewed the PSNH activity NHISO which reflected labor and overhead, as well as annual certification work and consulting services. The NHISO expenses were (properly) not reflected in the final quarterly report to the Commission (referenced as Schedule H), but were properly outlined in the final quarterly report schedule entitled NH CORE Energy Efficiency FCM Budget & Expenses (January 1-December 31, 2012). The FCM expenses were (properly) not included in the shareholder incentive calculation.

Interest

The CORE interest rate used is the Federal Reserve's prime rate as of the first of the month for which interest is calculated. Audit verified the rate to the quarterly interest rate letters sent to all utilities by the Director of the Gas/Water Division of the NHPUC.

The CORE calculation includes all revenue and expenses related to the CORE program, including Forward Capacity Market revenue and expense figures and an estimated shareholder incentive expense. Total interest for 2012 was $97,183. The Commission also ordered that interest be calculated on the 2% reserve, held per RSA 125-O:5. Audit reviewed the same interest calculation and noted a total of $19,500 interest added to the available funding for the CORE program for 2012. The calculation uses the prime rate multiplied by the average balance, divided by 360 days, multiplied by 30 days, regardless of the actual days in the month.

From month to month, the prior month's calculated interest is rolled into the balance of the subsequent month.

The CORE activity spreadsheet model includes the relevant FCM as well as an estimated 8% shareholder incentive as a program expense. The budget of $13,251,769, as presented to the Commission on December 15, 2011, reflected the 8% incentive figure to be $1,060,142. The amount included on the model agrees with the amount included in the August 2010 filing, excluding the estimated expenses related to the fuel blind program.

2% Set-aside 125-O:5

Audit noted in the 2010 CORE report that "PSNH, Staff at the PUC, and the OCA signed a settlement agreement dated July 13, 2010, outlining a number of issues relating to RSA 125-O:5. Primarily, as noted on the "Attachment A", methodology for determining the set-aside amounts, a specific format was instituted...Further, a cap of $600,000 was placed on the set aside balance, over which any monies would be returned back to the CORE..."

Per PSNH Accounting reconciliation at year end 2012, the balance in the 125-O set aside is comprised of:

| | |
|---|---|
| $ 93,350 | remaining from the 2008 2% set aside |
| $238,330 | remaining from the 2010 2% set aside |
| $230,791 | remaining from the 2011 2% set aside |
| $562,471 | balance in reserve at year end 2011 |
| $ 37,529 | balance calculated after 2012 year end representing 2012 set aside |
| $600,000 | stipulated cap on funding after allocating 2012 set aside |

Audit reviewed the worksheet used by PSNH which calculated the potential 2% of SBC $14,114,377, or $282,288. That calculated figure would have surpassed the cap on the reserve of $600,000. Therefore the amount noted for the 2012 2% set-aside was $37,529. No exception.

The funding is part of the net over collection, with a reconciling memo indicating what the reserve balance is. The general ledger reconciliation represents all net activity in the Conservation and Load Management programs, maintained in balance sheet account 254P9 (formerly 229P9).

Audit understands that any plant in service, funded through the RSA 125-O:5 reserve, will be considered as a Contribution in Aid of Construction.

## INDIRECT EXPENSES

Allocated payroll related expenses were verified to activity NHCOR for calendar year 2012. A total of $454,028 was spread among the CORE programs. The total is comprised of the following:

| | |
|---|---|
| AE-Employee Expenses | $ 4,206 |
| AV-Vehicle Charge | $ 860 |
| LT-Labor | $231,995 |
| ZB-Non Productive Time | $ 37,699 |
| ZE-Payroll Overheads | $179,268 |
| NHCOR Total | $454,028 |

Indirect expenses represent time worked on the CORE but without reference to specific programs. As time is so identified, it is directly charged to the NHEEP12, NHCOR activity and allocated among the specific programs.

Non-Productive (ZB) payroll benefits overhead percentages are calculated monthly. As examples, the rate for December 2012 was 16.25%, the same rate noted for December 2011. Audit recalculated the monthly December 2012 ZB that posted to the NHCOR work order without exception. The rate was applied to Labor charges posted in December 2012.

Payroll Benefits (ZE) overhead percentages are calculated annually. This loader spreads employee costs such as, payroll taxes, workers' compensation, pensions, etc. The following were the individual rates, (ZE) applied to PSNH labor for year 2012:

| | |
|---|---|
| Payroll Taxes | 8.25% |
| Insurance | 3.07% |
| Pensions | 26.21% |
| Benefits | 28.96% |
| | 66.49% |

Audit recalculated the $179,268 by applying the 66.49% to the sum of the LT Labor and ZB Non-productive time. The result was $179,319, or an immaterial $51 higher than reported on the NHCOR work order detail.

**Smart Start Revolving Loan Fund**

NHEC and PSNH were authorized by Commission Order 23,851 (issued 11/29/2001) to offer on-bill financing, presently referenced as Smart Start. Establishment of the $2 million revolving loan fund was originally through the SBC. NHEC currently offers the funding option to all commercial customers, while PSNH offers it to municipalities only.

Smart Start PSNH Expense summary includes:

| | |
|---|---|
| Rebates/Services | $ 229 |
| Internal Implementation costs | $ 14,663 |
| Bad Debt allocated to Reserve | $ (33,286) |
| Smart Start Incentive | $ 39,944 |
| Subtotal on Model | $ 21,549 |

Smart Start Principal portion of the loan fund itself:

| | |
|---|---|
| Principal available to loan | |
| Rolling Beginning Balance | $ 136,583 |
| Expenses/loans out 2012 | $(450,880) |
| Repayments 2012 | $ 665,729 |
| Total RLF | $ 351,432 available for lending |

The bad debt is a calculation of 5% of loaned funds, added to a municipality's repayment costs. For 2012, the repayments amounted to $699,015. The bad debt calculation, as noted on the model maintained by project type and expense category, was verified to be $33,286. The total was also verified to the work order. The net loan principal repaid was therefore $665,729.

PSNH was specifically authorized by Commission Order #23,851 to earn a shareholder incentive of 6% of loaned funds repaid. For 2012, $665,729 principal was repaid, which calculated to the Smart Start incentive of $39,944. Audit verified the totals to spreadsheets maintained by the Accounting division.

For the purposes of the CORE shareholder incentive calculation, the Smart Start expenses are properly not included. The expenses above are reflected in the work order SSMUN12. The loan fund itself is reflected in work order SSRLF.

Audit reviewed the quarterly reports of the Smart Start funding, provided to the Commission, and compared them with the Model used by PSNH and the work order. Specifically:

| Month | Total | Quarterly Rolling Total | Quarterly Report to PUC | Variance |
|---|---|---|---|---|
| January | $ 48,209 | $ 48,209 | | |
| February | $ 47,039 | $ 95,248 | | |
| March | $ 3,695 | $ 98,943 | $ 98,943 | $ -0- |
| April | $ 15,216 | $ 15,216 | | |
| May | $ 21,734 | $ 36,950 | | |
| June | $ 30,717 | $ 67,667 | $ 67,666 | $ -0- |
| July | $ 29,415 | $ 29,415 | | |
| August | $127,598 | $157,013 | | |
| September | $ 62,603 | $219,616 | $172,866 | $ 46,750 |
| October | $ 58,250 | $ 58,250 | | |
| November | $ -0- | $ -0- | | |
| December | $ 6,404 | $ 64,654 | $ 64,655 | $ -0- |
| Total | $450,880 | | $404,130 | $ 46,750 |

Audit requested clarification of the third quarter difference, and was provided with information indicating that the quarterly report to the PUC reflects only those completed projects. 50% of a bond necessary for a project at the Manchester airport, of $46,750, was necessary as a down-payment on an LED project which was not completed until February 2013.

For purposes of the Carry-forward Balance general ledger reconciliation, the following total was verified to the shareholder incentive package Attachment F page 7 of 7, as filed on May 31, 2012:

| | |
|---|---|
| Bad debt allocated to Reserve | $ 33,286 |
| Smart Start Revolving Loan Fund net activity for 2012 | $214,848 |
| Net Smart Start Expense | $248,134 |

**Re-CORE Regional Greenhouse Gas Initiative (RGGI) Revolving Loan Fund (RLF)**

On March 20, 2009, Granite State Electric Company d/b/a National Grid (GSE), the New Hampshire Electric Cooperative, Inc. (NHEC), Public Service Company of New Hampshire (PSNH), and Unitil Energy Systems, Inc. (UES), collectively known as the Utilities, presented a detailed proposal to expand the existing CORE energy programs which are funded through the system benefits charge (SBC). On August 19, 2009, $7,646,020 was approved by the Governor and Council. The original term of the grant was through June 30, 2010, with approved extension to December 31, 2010.

PSNH was named as the general grantee, and as such, issued invoices for services to the Sustainable Energy Division and distributed allocated amounts to GSE, NHEC, and UES. Audit noted the final invoices presented to the PUC Sustainable Energy Division in the amount of $404,358 and $5,941 posted to the revenue portion of the PSNH RGGI general ledger account 242RG799. Proper final distributions to GSE and NHEC were also noted. (Refer to the Final PUC Audit Report of the RE-CORE issued on June 24, 2011 for additional information)

Of the total $7,016,982 grant received by the Utilities, $1,728,000 was used to establish Revolving Loan Funds. Specifically, each utility received the following:

| | |
|---|---|
| GSE | $302,077 |
| NHEC | $200,000 |
| PSNH | $500,000 |
| UES | $725,000 |

Audit reviewed the activity within general ledger account 242RG for both expenses and revenues. All activity was verified to the work order RLFRGGI as appropriate. In addition, the running balance spreadsheet maintained by PSNH Accounting reflected the initial loan amount of $500,000, payments issued to contractors and repayments made from customers for the 2012 calendar year and cumulative. The net amount available to lend to customers as of 12/31/2012 is $136,007. Customers are able to use the loan fund to pay for the customer portion of an efficiency measure completed in connection with the HPwES program. Loan amounts range from $500 to $7,500 (not to exceed the actual customer cost), with terms up to seven years. There is no interest or administrative fee charged, and the customer may repay the loan early without penalty. The repayment occurs through an additional charge on the customer's monthly electric bill.

Any administrative expenses associated with the RGGI RLF post to the NHCOR activity. PSNH indicated administrative expenses would be minimal based on the available funding. While the RLF is an ongoing funding source for customers, PSNH considers the RGGI grant and thus the RGGI (RE-CORE) work order closed. Audit concurs with this accounting treatment.

**Incentive for 2012**

According to the Settlement Agreement, approved by the Commission by Order 25,189, dated 12/30/2010, a performance incentive for 2012 between 0% and 12%, based on the actual expenditures rather than budgeted expenditures, for each residential and C&I sector was authorized. The Order further requested that utilities "strive to complete their performance incentives by June 1 of the subsequent year." PSNH provided the incentive calculation on May 31, 2012.

For purposes of the Shareholder Incentive calculations, PSNH did not include FCM expenses, incentives, smart start incentives or loans, or expenses related to the fossil fuel portion of the HPwES.

The model used by Accounting to monitor the income and expenses of the EE program utilizes 8% or $1,060,141 spread evenly over the twelve months of the 2012 program year. Debits were posted monthly to the PSNH Accrued C&LM general ledger account 229-P9-788, with offsetting entries to 229-P9-799. The net impact on the balance sheet and income statement during the year is zero. In December 2012, the account used to record the CL&M activity was changed from 229 to 254. Actual incentive as calculated was $1,143,286 or $83,145 higher than the amount used within the model. The difference between the calculated incentive used throughout the year, and the actual incentive is changed on the spreadsheet at the beginning of the subsequent year. Interest is not adjusted during the year. The annual movement of the incentive, which takes place in December of each year, posts in the following manner:

Debit 254-P9-799 -PSNH Accrued C&LM Expenses
Credit 421-9R-799 –PSNH Shareholder Incentive (below the line revenue)

The calculated incentive was $1,143,286 for program year 2012. PSNH booked at 12/31/2012 an estimated incentive $1,122,100. Audit requested and was provided with the journal entry supporting the entry, which posted 1/10/2013 with an effective date of 12/31/2012. The true up which should post in 2013 is $21,186 based on the Shareholder Incentive package received by the Commission on May 31, 2013.

The journal entry for the 2011 incentive true-up of $339,034 was requested. Audit was provided with the general ledger detail supporting the $339,034 which was booked 11/7/2012 with an effective date 10/31/2012. The entry posted to account 229 P9, offset to 421-9R without exception.

## Carry-forward Balance

The carry-forward balance represents the availability of funds at each utility, so anticipated expenses that have not yet posted to the general ledger have already been "reserved" for future use, and are thus considered not available.

The reconciliation of program year activity to the general ledger year end posting was noted in the May 31, 2012 shareholder incentive package provided to the Staff at the Commission. Refer to pages 6 of 7 and 7 of 7.

| | Reported | |
|---|---|---|
| **2011 Carry-forward Balance** | **$ 18,386** | Balance agrees with 2011 CORE Audit report |
| | | |
| SBC Funding | $14,114,377 | |
| Forward Capacity Revenue | $ 1,933,146 | |
| Forward Capacity Expense | $ (116,550) | |
| Interest on CORE | $ 97,183 | |
| Interest on 2% RSA 125-O | $ 19,500 | |
| **Total 2012 Funding** | **$16,047,656** | |
| | | |
| Energy Efficiency Expenses | $11,240,226 | |
| 2012 EE posted to GL 2013 | $ 2,305,147 | |
| Smart Start 2012 | $ 248,135 | |
| 2012 Incentive booked 2012 | $ 1,122,100 | |
| 2012 Incentive to book 2013 | $ 21,186 | |
| **Total 2012 Expenses** | **$14,936,794** | |
| | | |
| Carry-forward 2012 prior to 125-O | $ 1,129,248 | |
| RSA 125-O 2012 expense | $ 37,529 | |
| **Carry-forward after 125-O** | **$ 1,091,720** | over-collection at 12/31/2012 |

Audit reviewed the balance sheet reconciliation of the general ledger account 254P9 (formerly 229P9) used to record the ongoing activity of the EE. PSNH also reflects the Smart Start revolving loan fund, Smart Start bad debt estimates, and unused RSA 125-O:5 allocations within the account 254P9 balance. The ending balance is not the same as the carry-forward balance, due to timing of postings to the general ledger. Refer to the reconciliation provided with the 5/31/2013 shareholder incentive, page 7 of 7.

| | | |
|---|---|---|
| Account 229P9 December 31, 2011 Balance | $(3,231,357) | |
| Account 254P9 December 31, 2012 Balance | $(4,467,068) | |
| Net General Ledger activity | $(1,235,711) | increase to liability |

# Liberty Utilities (Energy North Natural Gas) Corp.

# Final Audit Report

# STATE OF NEW HAMPSHIRE

**Inter-Department Communication**

**DATE:** April 21, 2014
**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** Liberty Utilities (Energy North Natural Gas) Corp.
DE 10-188 - 2012 CORE
**FINAL** Audit Report

**TO:** Steve Frink, Assistant Director Gas/Water Division NH PUC
James Cunningham, Analyst III

## Introduction

The NHPUC Audit Staff (Audit) has reviewed the activity of Liberty Utilities (Energy North Natural Gas) Corp. (referred herein as Liberty) for the program year ended December 31, 2012, as filed with the Commission on May 31, 2013 in docket DE 10-188.

During this filing period, National Grid was in the process of selling its NH division to Liberty Utilities. The sale was announced in December 2010. The final state and federal regulatory approvals needed to complete the transaction were granted on May 30, 2012. Activity therefore, from January through June was processed by National Grid, and Liberty Utilities from July through December 2012. The 2012 SHI filing was completed by Liberty Utilities.

In accordance with Commission Order #24,630 in Docket DG 06-036, Liberty provided the Commission with monthly summaries of expenses and recoveries related to the energy efficiency programs in effect.

Audit appreciates the efforts, during the course of the audit, of Eric Stanley, Mark Savoie, Paul Kinch, Tina Poirier, and Sue-Ellen Billeci from Liberty Utilities.

## Filing Summary

Demand Side Management (DSM) expenses for the year ending December 31, 2012 as reported on May 31, 2013 were $6,226,170. Adjustments identified by the Manager of Energy Efficiency Programs, in conjunction with the Accounting division of Liberty Utilities, occurred during the July through December timeframe of Liberty ownership of Energy North. The adjusted expense total should be $6,404,009.

The **2011 final audit report**, issued on 7/16/2013 reflected the following. It is from this final report that the 2012 roll-forward should have been documented:

| | Internal Admin | External Admin | Rebates/ Services | Internal Implmntn | Marketing | Evaluation | TOTAL |
|---|---|---|---|---|---|---|---|
| Low Income | $ 38,967 | $ - | $ 566,038 | $ 141,225 | $ - | $ 16,984 | $ 763,214 |
| High-efficiency Heating, Water Heating, Controls | $ 46,781 | $ - | $ 550,401 | $ 17,960 | $ 43,913 | $ 15,043 | $ 674,098 |
| New Home Construction w/EnergyStar | $ 61,680 | $ 441 | $ 12,813 | $ 3,500 | $ 1,358 | $ 2,989 | $ 82,781 |
| Building Practices and Demo | $ 197 | $ - | $ - | $ - | $ 421 | $ 14 | $ 632 |
| Energy Audit w/Home Performance and Weatherization | $ 83,661 | $ 1,310 | $ 407,674 | $ 87,451 | $ 13,298 | $ 85,762 | $ 679,156 |
| Residential Energy Analysis Internet Audit | $ - | $ - | $ - | $ - | $ 686 | $ - | $ 686 |
| **Total Residential** | **$ 231,286** | **$ 1,751** | **$ 1,536,926** | **$ 250,136** | **$ 59,676** | **$ 120,792** | **$ 2,200,567** |
| | | | | | | | |
| Large C&I Retrofit | $ 116,761 | $ - | $ 353,872 | $ 96,746 | $ 13,773 | $ 12,377 | $ 593,529 |
| New Equipment and Construction | $ 67,746 | $ - | $ 210,258 | $ 21,332 | $ 14,180 | $ 6,818 | $ 320,334 |
| Small Business Energy Solutions | $ 7,804 | $ - | $ - | $ - | $ - | $ - | $ 7,804 |
| C&I Custom Small, Medium, Large | $ 11,037 | $ - | $ 111,124 | $ 47,113 | $ 37,952 | $ 5,214 | $ 212,440 |
| Multi-family | $ 186 | $ - | $ 876 | $ 35 | $ 1,997 | $ 66 | $ 3,160 |
| Economic Redevlopment | $ 26 | $ - | $ - | $ - | $ 1 | $ 1 | $ 28 |
| **Total C&I** | **$ 203,560** | **$ -** | **$ 676,130** | **$ 165,226** | **$ 67,903** | **$ 24,476** | **$ 1,137,295** |
| | | | | | | | |
| **Grand Total** | **$ 434,846** | **$ 1,751** | **$ 2,213,056** | **$ 415,362** | **$ 127,579** | **$ 145,268** | **$ 3,337,862** |

**Fund Balance**

| | | |
|---|---|---|
| 1/1/2011 Beginning Balance | $(1,331,657) | over-collection at 1/1/2011 |
| Expenditures | $ 3,337,860 | |
| Collections | $(5,887,029) | |
| Interest | $ (125,567) | |
| **Ending Balance 12/31/2011** | **$(4,006,393)** | **over-collection per 2011 PUC audit** |
| Adjustment to beginning balance | $ 185,619 | see monthly January 2014 report |
| 2012 total collections | $(4,429,095) | |
| 2012 total expenses | $ 6,404,009 | |
| 2012 interest | $ (158,889) | as originally filed |
| Incentive 2007 | $ 128,672 | see 12/2012 monthly report 1/2014 |
| Incentive 2008 | $ 164,816 | and 3/28/2014 reconciliation |
| Incentive 2009 | $ 318,215 | provided to Audit. Incentives |
| Incentive 2010 | $ 291,015 | which have been deducted |
| Incentive 2011 | $ 235,481 | from the fund but not reported |
| Incentive 2012 | $ 223,949 | on the reports to the Commission |
| Interest adjustment | $ 40,000 | based on recalculations w/incentives |
| **Sub-total Fund Balance 12/2012** | **$ (602,601)** | |
| **12/2012 Balance per Reports** | **$ (962,888)** | Balance per adjusted monthly report |
| **Variance** | **$ 360,287** | |
| + expenses not defer | $ 44,185 | per reconciliation GL to report |
| + interest adjust | $ 2,645 | " |
| -fleet expenses | $ (5,697) | " |
| -12/12 over accrual | $ (409,949) | " |
| + 7/12 Grid expense | $ 8,371 | " |
| **Remaining unknown variance** | **$ (158)** | **immaterial** |

The 12/31/2011 audited balance does not agree with the amount reported to the Commission in the monthly filings (in DG 06-036). The reported balance at 12/31/2011 was $(3,820,774) or $185,619 less than noted in the prior audit report. The adjustment amount was noted in the January 2014 monthly report.

Audit reviewed the 2012 activity through the monthly reports submitted to the Commission in compliance with DG 06-036. Monthly revenue calculations accurately reflected the approved Commission tariff rates for the period. Interest was properly calculated at 3.25% on the average balance. Expenses were verified to the adjusted summary of expenses as provided in the detailed Excel pivot table. Adjusting entries were supported with pdf versions of the correcting entries made in 2012 and 2013 which relate to the 2012 CORE. The monthly reports do not include the incentive accruals which are booked monthly.

Liberty estimated 70% of the total incentive to be $383,998. The Liberty portion of the estimated incentive was identified in July, August, November and December and sum to $223,949 which is 58% of the total estimated incentive. The 2012 incentives were reflected on the January 2014 monthly report, and updated thereafter for prior periods.

Previously, the monthly reports did not include the incentives, although the general ledger had been booked. In an effort to more transparently reflect all costs associated with the Gas Energy Efficiency programs, a specific note and column has been added to the monthly reports (as of January 2014) to indicate the amount of each specific incentive. Going forward, the figure should be a monthly accrual, trued up once the incentive is finalized.

General Ledger Detail

The Wensoft Financial Reporting system is a system report by code. Wensoft is the basis for the expenses reported. If manual journal entries are made to the Great Plains general ledger (now known as Microsoft Dynamic), there may not be the necessary system code associated with it. As a result, the monthly reports provided to the Commission may not reflect all of the actual adjusted costs. Audit met with the Company as noted above. The monthly report filed for the December 2013 month end, included adjustments for the 2010, 2011, 2012, and 2013 incentive estimates that had been booked. In the past reports, the incentive was not noted as a program expense. As a result, the interest calculation on the reported rolling balance was based on expenses which were understated.

Audit was provided with the Energy North Gas Company Account Reconciliation for account 8840-2-0000-10-1163-1755, Deferred Peak Reserve DSM, which reflects the ending balances for 2012 as follows:

| Year End | per GL | Per Reports to PUC | Difference |
|---|---|---|---|
| 12/31/2012 | $(602,594) | $(962,888) | $360,295 |
| + expenses not defer | $ 44,185 | -0- | |
| + interest adjust | $ 2,645 | -0- | |
| -fleet expenses | $ (5,697) | -0- | |
| -12/12 over accrual | $(409,949) | -0- | |
| + 7/12 Grid expense | $ 8,371 | -0- | |
| Reconciled balance | $(963,039) | $(962,888) | $(151) immaterial |

2012 Incentive

The originally filed 2012 activity, per the shareholder incentive, was $6,226,170. However, the sum of the monthly reports provided to the Commission show a total expense for the year of $6,677,835. The variance of $451,665 was researched by the Liberty Finance division, with information provided to Audit on 12/20/2013. Audit met with the Company on 1/31/2014, and again on 2/28/2014. The revised and reconciled adjusted expense balance was reported to be $6,404,009. The Company identified the information as:

| | |
|---|---|
| National Grid (January – July 2, 2012) | $2,043,038 |
| Liberty (July 3-December 2012) | $4,360,971 |
| Total 2012 Expenses | $6,404,009 |

A spread among the programs and expense types was provided to Audit, to reflect the activity as in the grid above.

**EnergyNorth Gas, Energy Efficiency Program Expenditures - CY2012**

***Revised, as of February 17, 2014***

| Program | Evaluation | Ext Admin | Internal Admin | Internal Implemt | Marketing | Rebates-Services | Grand Total |
|---|---|---|---|---|---|---|---|
| C&I Large Retrofit | $ 6,763.94 | $ 155,920.08 | $ 24,432.22 | $ 20,209.51 | $ 44,410.60 | $ 1,290,515.80 | $ **1,542,252.16** |
| C&I New Construction | $ 43,678.37 | $ 34,225.12 | $ 46,059.84 | $ 37,448.78 | $ 22,671.40 | $ 1,511,997.28 | $ **1,696,080.79** |
| C&I Small Business | $ 447.82 | $ (12,751.53) | $ 5,775.53 | $ 6,394.44 | $ 20,453.96 | $ 236,871.00 | $ **257,191.23** |
| **Total - C&I** | **$ 50,890.13** | **$ 177,393.67** | **$ 76,267.59** | **$ 64,052.73** | **$ 87,535.97** | **$ 3,039,384.08** | **$ 3,495,524.17** |
| Res Appliances | $ 4,803.23 | $ 36,685.00 | $ 8,785.20 | $ 11,922.49 | $ 10,858.67 | $ 815,562.66 | $ **888,617.25** |
| Res Audit & Weatherization | $ 7,759.30 | $ 169,393.88 | $ 38,504.60 | $ 34,138.94 | $ 129,333.07 | $ 644,591.38 | $ **1,023,721.17** |
| Res Tech Demo | $ 2.72 | $ 27,000.02 | $ 44.46 | $ 115.54 | $ 127.78 | $ - | $ **27,290.52** |
| Res Low Income | $ 4,122.12 | $ 127,223.05 | $ 16,295.38 | $ 4,683.09 | $ 7,665.12 | $ 774,185.95 | $ **934,174.71** |
| Res New Construction | $ 639.34 | $ 5,064.94 | $ 19,547.49 | $ 1,444.89 | $ 818.80 | $ 7,165.79 | $ **34,681.25** |
| **Total - Residential** | **$ 17,326.71** | **$ 365,366.89** | **$ 83,177.13** | **$ 52,304.96** | **$ 148,803.43** | **$ 2,241,505.78** | **$ 2,908,484.90** |
| **Total - All** | **$ 68,216.84** | **$ 542,760.56** | **$ 159,444.72** | **$ 116,357.69** | **$ 236,339.40** | **$ 5,280,889.86** | **$ 6,404,009.07** |

Audit reviewed the supporting schedules relating to the expenses and categories as outlined in the 2/17/2014 revision. The supporting schedules were verified to the reported expenses without exception. One Low Income rebate was reviewed without exception.

## Conclusion

Audit recommends that within 30 days of the issuance of this final audit report, a revised shareholder incentive for the year ended 2012 be submitted to the Commission.

Any adjustment to the incentive earned for 2012 must be specifically noted and carried forward into the monthly reports, such that the roll-forward general ledger and reporting balances accurately reflect the actual amount earned and posted.

As in previous audits, the Company is encouraged to maintain the books and records in compliance with the Commission's Orders and chart of accounts.

# Liberty Utilities (Granite State Electric) Corp.

## Final Audit Report

**STATE OF NEW HAMPSHIRE**
**Inter-Department Communication**

**DATE:** May 27, 2014
**AT (OFFICE):** NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** CORE Energy Programs – DE 10-188
**FINAL** GSE Audit Report

**TO:** Tom Frantz, Director, Electric Division, NHPUC
Jim Cunningham, Analyst, Electric Division, NHPUC

## Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records related to the CORE Energy Efficiency Program for the calendar year 2012. The four participating electric utilities, Unitil Energy Services, Inc. (UES), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE, Liberty) filed a joint petition for the program years 2011 through 2012. Each utility was audited individually. Audit thanks Eric Stanley, Tina Poirier, Paul Kinch, Jim Riordan, and Sue Bellici from Liberty for their assistance during the audit process.

## Summary of the Program

The four electric companies filed a joint proposal for the 2011-2012 CORE energy efficiency programs on August 3, 2010. On December 30, 2010, a Settlement Agreement was approved by Commission Order 25,189. The Order authorized the continuation of the following programs:

1. Energy Star Homes (ESH)
2. Home Performance with EnergyStar-fuel blind pilot PSNH and UES (HPwES)
3. Energy Star Lighting (ESL)
4. Energy Star Appliance (ESA)
5. Home Energy Assistance for low income customers (HEA) at 14.5% of SBC
6. New Equipment and Construction for large commercial and industrial customers (C&I)
7. Large C&I Retrofit
8. Small Business Energy Solutions for small C&I customers
9. Educational programs
10. certain utility specific programs

The utility specific programs outlined in the Order are:

- NHEC: Smart Start program, and High Efficiency Heat Pump program
- PSNH: Specific adaptions of programs for C&I customers, as well as its Smart Start program, services under the EnergyStar Homes Program Enhancement option (Geothermal and Air Source Heat Pump), educational enhancements for C&I Customer Partnerships, and C&I Request for Proposal for Competitive and Economic Development
- UES: Continue its Energy Efficiency on-line Tools Program

Commission Approval of 2012 Energy Efficiency Program Updates

On January 9, 2012, the Commission issued Order 25,315, approving a settlement agreement which updated the 2010 agreement. Specific updates included in the December 2011 settlement agreement are summarized below:

- Changes to budgets for GSE, PSNH, UES, National Grid NH, Northern
- Energy Star Lighting program will now include $5 rebates for LED purchased through the catalog or retail stores
- Ten specific changes to the Residential High-efficiency Heating, Water Heating and Controls program for the gas utilities
- Changes to the Home Energy Assistance program will align the gas utilities with the electric model for income eligibility. 948 projects are anticipated to be completed (by all utilities) in 2012. The focus is on weatherization.
- Changes to the New Equipment and Construction program include LED fixtures and lamps as well as exceeding the IECC 2009 energy code
- Changes to the Large C&I Retrofit program to include LED rebates
- Changes to the Small Business Solutions program financing with GSE and UES expanding the RGGI financing from municipal only to all C&I customers
- Changes to the Educational programs will include a new program called Lights for Learning
- PSNH proposed to reduce the Energy Star Homes program through enhancement using geothermal and air source HP option rebate from $7,500 to $4,500 per home
- Implementation at PSNH of a new Customer Engagement Program as a pilot

The Order and settlement agreement also specifically addressed "carry-over amounts" from 2010 which were to be excluded from future calculations of performance incentive for the electric utilities. The gas utilities were required to provide the final amount of 2011 unspent energy efficiency funds by 3/12/2012. The amount to include in the 2012 budget required updated budgets be presented. The gas utilities could opt to return the unspent funds to customers via the LDAC for 2012-2013.

The Home Performance with Energy Star, fuel neutral program, in place as a pilot program at PSNH and UES, will continue as previously ordered, with incentive calculated on electric measure savings only, and rebates capped at 50% of the project or $4,000, whichever is less.

Senate Bill 323

Senate Bill 323 required the PUC, in conjunction with the Energy Efficiency and Sustainable Energy (EESE) Board, to choose an independent consultant to conduct a comprehensive review and analysis of energy efficiency, conservation, demand response, and sustainable energy programs and incentives in the state, and provide recommendations for possible improvements, among other things. Vermont Energy Investment Corporation (VEIC) was chosen in December 2010. The final report was provided to the legislature on September 30, 2011. Per legislation, the total cost of the review was not to exceed $300,000 (statewide). Audit reviewed the VEIC records on file in the PUC Business Office and noted the total contract amount was $282,965. Two gas utilities and four electric utilities were assessed the invoiced costs as incurred. Specifically, the utilities were assessed by the PUC Business Office:

| | |
|---|---|
| Northern Utilities (gas) | $ 12,623 |
| EnergyNorth (gas) | $ 63,873 |
| NHEC (electric) | $ 12,428 |
| UES (electric) | $ 26,477 |
| GSE (electric) | $ 15,852 of which $12,471 posted in 2011 and $3,381 in 2012 |
| PSNH (electric) | $152,213 |
| Total | $282,965 |

The electric utilities reflected their costs as Evaluation expenses, across each of the CORE programs.

**CORE Program Summary**

On March 3, 2013, a *final quarterly report* of the 2012 CORE program was filed with the NH PUC. The following represents the totals for the statewide combined residential and commercial/industrial sectors from all electric utilities (and does not include shareholder incentive expenses):

| | Internal Administration | External Administration | Rebates Services | Internal Implementation | Marketing | Evaluation | TOTAL |
|---|---|---|---|---|---|---|---|
| GSE | $ 87,157 | $ 54,038 | $ 1,233,660 | $ 63,655 | $ 32,607 | $ 32,102 | $ 1,503,219 |
| NHEC | $ 86,643 | $ 78,801 | $ 975,953 | $ 238,048 | $ 12,395 | $ 22,563 | $ 1,414,403 |
| PSNH | $ 463,657 | $ 1,227 | $ 10,867,287 | $ 1,917,816 | $ 242,542 | $ 260,805 | $ 13,753,334 |
| UES | $ 94,410 | $ 18,900 | $ 1,335,413 | $ 560,821 | $ 39,910 | $ 68,033 | $ 2,117,487 |
| COMBINED 2012 | $ 731,867 | $ 152,966 | $ 14,412,313 | $ 2,780,340 | $ 327,454 | $ 383,503 | $ 18,788,443 |

GSE Summary

GSE filed its Shareholder Incentive Calculation on June 24, 2013 then filed a revision on July 8, 2013. The revised calculation reflected the following:

| | |
|---|---|
| Commercial and Industrial Implementation Expenses | |
| New Construction | $386,503 |
| Large C&I Retrofit | $330,094 |
| Small C&I Retrofit | $121,972 |
| Subtotal | $838,569 |
| Residential Implementation Expenses | |
| Energy Star Homes | $ 75,729 |
| NH Home Performance w/Energy Star | $142,621 |
| Energy Star Appliances | $ 53,532 |
| Home Energy Assistance | $271,015 |
| Energy Star Lighting | $ 91,933 |
| Subtotal | $634,831 |
| **Total CORE 2012 Expenses** | **$1,473,400** |

PUC Audit was provided with a pivot table of the programs in November 2013. In January 2014, the Company noticed an error in the calculation of one cell of one tab in the pivot table spreadsheets. The updated totals were reported to be **$1,476,072**:

| | Internal Admin | External Admin | Rebates/ Services | Internal Implmntn | Marketing | Evaluation | TOTAL |
|---|---|---|---|---|---|---|---|
| C&I Large Retrofit | $ 22,806 | $ - | $ 279,971 | $ 25,443 | $ 920 | $ 954 | $ 330,094 |
| C&I New Construction | $ 18,250 | $ - | $ 342,654 | $ 16,756 | $ 749 | $ 8,094 | $ 386,503 |
| C&I Small Business | $ 11,357 | $ 3,960 | $ 88,483 | $ 7,839 | $ 466 | $ 9,867 | $ 121,972 |
| Total C&I | $ 52,413 | $ 3,960 | $ 711,108 | $ 50,038 | $ 2,135 | $ 18,915 | $ 838,569 |
| | | | | | | | |
| Res Appliances | $ 2,974 | $ 9,809 | $ 36,780 | $ 1,143 | $ 2,741 | $ 86 | $ 53,532 |
| Res Audit & Weatherization | $ 17,492 | $ 3,417 | $ 112,803 | $ 6,081 | $ 1,486 | $ 1,342 | $ 142,621 |
| Res Lighting | $ 4,629 | $ 19,504 | $ 28,835 | $ 3,403 | $ 25,574 | $ 9,988 | $ 91,933 |
| Res Low Income | $ 13,930 | $ 6,561 | $ 249,115 | $ 716 | $ 451 | $ 243 | $ 271,015 |
| Res New Construction | $ 9,410 | $ 7,132 | $ 56,653 | $ 2,123 | $ 218 | $ 2,865 | $ 78,401 |
| Total Residential | $ 48,433 | $ 46,423 | $ 484,186 | $ 13,466 | $ 30,469 | $ 14,525 | $ 637,503 |
| | | | | | | | |
| **Combined C&I and Residential** | **$ 100,846** | **$ 50,384** | **$ 1,195,294** | **$ 63,504** | **$ 32,604** | **$ 33,441** | **$ 1,476,072** |

The revised pivot table detail is $2,672 higher than the shareholder incentive detail provided on July 8, 2013. The change in the Residential New Construction was the result of an adjustment to a formula in one of the pivot tables used to support the reported figures.

In response to the DRAFT audit report, issued to the Company on May 6, 2014, a subsequent revised table was provided, outlining **$1,499,412**:

| | Internal Admin | External Admin | Rebates/ Services | Internal Implement | Marketing | Evaluation | Total per 5/13/2014 REVISION |
|---|---|---|---|---|---|---|---|
| C&I Large Retrofit | $ 20,793 | $ - | $ 279,971 | $ 31,079 | $ 920 | $ 889 | $ 333,652 |
| C&I New Construction | $ 16,912 | $ - | $ 342,878 | $ 27,249 | $ 749 | $ 8,115 | $ 395,903 |
| C&I Small Business | $ 11,442 | $ 3,960 | $ 92,867 | $ 8,364 | $ 466 | $ 9,594 | $ 126,694 |
| **Total - C&I** | **$ 49,147** | **$ 3,960** | **$ 715,715** | **$ 66,693** | **$ 2,135** | **$ 18,598** | **$ 856,249** |
| | | | | | | | |
| Res Appliances | $ 2,700 | $ 11,654 | $ 36,780 | $ 3,315 | $ 2,273 | $ 86 | $ 56,808 |
| Res Audit & Weatherization | $ 17,109 | $ 3,917 | $ 112,803 | $ 6,540 | $ 1,486 | $ 2,444 | $ 144,298 |
| Res Lighting | $ 4,485 | $ 21,560 | $ 28,718 | $ 5,966 | $ 22,522 | $ 9,866 | $ 93,117 |
| Res Low Income | $ 12,978 | $ 6,561 | $ 247,938 | $ 2,307 | $ 451 | $ 243 | $ 270,479 |
| Res New Construction | $ 8,824 | $ 7,132 | $ 56,653 | $ 2,996 | $ 218 | $ 2,638 | $ 78,461 |
| **Total - Residential** | **$ 46,096** | **$ 50,825** | **$ 482,892** | **$ 21,123** | **$ 26,950** | **$ 15,278** | **$ 643,163** |
| **COMBINED ADJUSTED TOTAL** | **$ 95,243** | **$ 54,785** | **$ 1,198,607** | **$ 87,815** | **$ 29,085** | **$ 33,876** | **$ 1,499,412** |

The adjusted 2012 total, provided to Audit on May 13, 2014 increased the reported expenses by $23,340. The change was stated to be the result of a decrease in the allocated costs by $798 while GSE was owned by National Grid, and an upward adjustment of TSA expenses in the amount of $24,138 while GSE was owned by Liberty. On May 14, 2014, Audit requested the specific allocation details and the resulting adjustment. On May 15, 2014, the Company provided an Excel spreadsheet along with a summary indicating that there were costs totaling $2,558 which should have been removed, and $26,696 which should have been added, resulting in the overall total of $1,499,412. Audit cannot verify if the adjustments are accurate, nor can Audit determine if the TSA allocations included in the 2012 report are correct.

The fund balance reported in the July 8, 2013 incentive package reflects all expenses associated with the CORE, including incentives, forward capacity revenues and expenses, and interest, at the time the incentive was provided. However, as a result of the adjustments noted throughout the audit fieldwork, the Company must resubmit the 2012 incentive details, along with the revised fund balance and reconciliation to the general ledger as appropriate.

Specifically, the fund balance information as of 12/31/2012 submitted in the July 8, 2013 package reflects:

| | | |
|---|---|---|
| 1/1/2012 Beginning Balance over-collection | | $ 124,988 |
| 2012 Residential Revenue | $ 535,549 | |
| 2012 C&I Revenue | $1,228,712 | $1,764,261 |
| 2012 Residential Expenses | $(640,328) | |
| 2012 C&I Expenses | $(844,301) | $(1,484,629) |
| 2012 Residential Interest | $ (1,751) | |
| 2012 C&I Interest | $ 16,929 | $ 15,178 |
| 2012 Residential Estimated Incentive | $ (29,449) | |
| 2012 C&I Estimated Incentive | $ (55,928) | $ (85,378) |
| 12/31/2012 Ending Balance over-collection | | **$ 334,421** |

The reported ending balance in general ledger account 8830-2-0000-20-2142-2423 at year end 2012 was a credit balance of **$334,393** which is a **$28** variance from the reported fund balance. The reconciliation of the fund balance to the general ledger, provided on

April 4, 2014 follows:

| | |
|---|---|
| General Ledger a/o 12/31/2012 | $(334,393) |
| Adjust opening balance to EE annual report | $ 82,172 |
| Revenue collection true-up | $ (58) |
| Reduce 12/2012 over-accrual | $ (76,627) |
| Remove RGGI related improper postings | $ (63,878) |
| Interest true-up | $ 936 |
| Incentive not in general ledger | $ 86,833 |
| Remove Water heater costs not in EE | $ (13,146) |
| Adjusted General Ledger to Fund Balance | **$(318,162) net over-collection** |

Based on the 4/4/2014 information, the incentive calculation for 2012 should reflect an ending fund balance of $318,162. **The Company must update the information with the most recent adjustments provided to Audit May 15, 2014. Audit Issue #1**

Audit requested clarification of the general ledger adjustment of $82,172 and was told that the *"$82,172 is the variance between what National Grid represented their EE balance to be at June 30, 2012 and GSE's GL balance at July 2, 2012. Liberty had requested a reconciliation between the two values several times but an answer was never received. The National Grid energy efficiency team represented that the annual report reflected the correct balance. As a result, GSE made an adjustment in 2013 to match the report balance as of June 30, 2012."*

**Revenue**

Using the kWh sales details provided to the PUC Audit Staff during the Electric Assistance Program audits for the fiscal years ended 9/30/2012 and 9/30/2012, Audit noted:

| | | | |
|---|---|---|---|
| Total kWh | 910,773,336 | | |
| Total SBC | $0.0033 | | |
| SBC Revenue | $3,005,552 | which was allocated: | |
| | | EAP | $1,366,160 |
| | | EE | $1,639,392 |

The EE portion of the SBC plus reported Forward Capacity Revenue $122,177 = **$1,761,569.** The revenue listed on the fund balance report is **$1,764,261** which is higher than the calculation above by **$2,672.**

Verification of kWh on which SBC Charged

KWh sales were verified to the End of Month Sales Report for each month of the test year. Total kWh 910,773,336 sales were verified to the system reports without exception. Total SBC allocated to the Energy Efficiency CORE programs was $1,639,392, as properly allocated based on $.0018. General ledger activity reflected the Energy Efficiency portion of the SBC in the account

**Forward Capacity Market – net $113,226**

GSE FCM reflects $122,177 revenue less $8,951 expenses for net revenue of $113,226. The 4th quarterly report noted the following:

| | | | |
|---|---|---|---|
| Original FCM revenue | $119,163 | revised FCM revenue | $132,908 |
| Original FCM expenses | $(16,283) | revised FCM expenses | $ (8,951) |
| Original net FCM | $102,880 | revised FCM net | $113,226 |

It appears that the forward capacity expenses were properly excluded from the shareholder incentive calculation. No exception. The reported FCM expenses of $8,951 do not agree with the pivot table which summed to $8,556. The variance is $395.

**Interest - $15,178**

The CORE interest rate used is the Federal Reserve's prime rate as of the first of the month for which interest is calculated. Audit verified the 3.25% rate to the quarterly interest rate letters sent to all utilities by the Director of the Gas/Water Division of the NHPUC.

The CORE calculation includes all revenue and expenses related to the CORE program, including Forward Capacity Market revenue and expense figures, and the current year's estimated incentive expense. The FCM variance would not have a material impact on the interest calculated for the year.

Based on the adjustments to expenses noted throughout the audit fieldwork, the noted interest calculation is likely a different figure. **Audit Issue #1**

**Expense Test Summary**

Due to the length of time involved with the audit, the review and adjustments to the pivot table outputs, and the reconciliation of the reported 2012 program to the general ledger, Audit was not able to conduct a thorough, detailed expense review. Review of the 2012 program year began in November 2013 and continued through April 2014.

Home Energy Assistance

From the August 2010 proposal, page 31, "This program is designed to help low income customers manage their energy use and reduce their energy burden. Basic services include insulation, weatherization, cost effective appliance and lighting upgrades, and appropriate health and safety measures. Participating customers can receive up to $5,000 in program services…"

Expenses related to the Home Energy Assistance portion of the 2012 CORE were ordered to be "at least 15% of the SBC budget" for 2012. The calculated percentage was based on the CORE expense budget figures for 2012 in the 12/15/2011 revised filing for 2012:

| | | |
|---|---|---|
| C&I Budget for 2012 | $ 871,701 | |
| Residential for 2012 | $ 629,253 | |
| 2012 Budget | $1,500,954 | *15% = $225,143 |
| HEA Budget | $ 222,000 | actual budget = 14.7% of the total budget |

Total reported actual expenses relating to the HEA were $271,015. The total HEA expended amount represents 18% of the total budget and 18.4% of the actual expenses for the program year.

Audit requested and was provided with the documentation to support one entry in the amount of $62,438. The figure is the sum of several OTTER invoices submitted from Southern NH Services for administration and rebate costs associated with the Home Energy Retrofit program, SMOC Energy for refrigerator removal, Performance Systems Development of New York LLC for OTTER maintenance and support, and a listing of Pro-Unlimited personnel related to contracted labor supporting the NH electric HEA program among others. Liberty indicated that the contractor weekly payments (from 1/1/2012 – 7/15/2012) were allocated among the HEA and other non-core related business functions. The allocated amount to the 2012 of $11,775 represented 25% of the total invoiced and paid to Pro-Unlimited.

One of the Performance Systems invoices, in the amount of $512 was for services June 2011. The invoice was received and stamped by the National Grid Accounts Payable on June 20, 2011. The amount therefore should not be included in the 2012 shareholder incentive calculation.

## Incentive

Total estimated incentive for 2012 was 95% of $120,076 or $114,072. For 2012, the Company noted that the incentive was split 50/50 with National Grid and Liberty each posting $57,036. According to the July 2013 filing of the shareholder incentive, the total earned incentive for 2012 is $85,377. Audit is unable to determine the accurate calculation of the 2012 incentive, based on the revisions of expense totals provided. **Audit Issue #1**

## Carry-forward Balance

The carry-forward balance represents the availability of funds at each utility, so anticipated expenses that have not yet posted to the general ledger have already been "reserved" for future use, and are thus considered not available.

Audit verified the balance at 6/30/2012 in the National Grid account 242300, Accrued Liability C&LM (Conservation and Load Management) was a credit of $569,163.59. The beginning balance noted on the Liberty general ledger at 7/3/2012 was $578,645.99. The variance of $9,482.40 was noted as an adjusting debit to the Liberty account in November 2012. The general ledger balance at year end 2012 in the Liberty account 8830-2-0000-20-2142-2423 was a credit of $334,392.52. Because of the revisions due to correcting entries reported by

Liberty, Audit cannot conclude what the 2012 over/under carry-forward balance is. Refer to Audit Issue #1.

**Re-CORE Regional Greenhouse Gas Initiative (RGGI) Revolving Loan Fund (RLF)**

On March 20, 2009, Granite State Electric Company d/b/a National Grid (GSE), the New Hampshire Electric Cooperative, Inc. (NHEC), Public Service Company of New Hampshire (PSNH), and Unitil Energy Systems, Inc. (UES), collectively known as the Utilities, presented a detailed proposal to expand the existing CORE energy programs which are funded through the system benefits charge (SBC). On August 19, 2009, $7,646,020 was approved by the Governor and Council. The original term of the grant was through June 30, 2010, with approved extension to December 31, 2010.

PSNH was named as the general grantee, and as such, issued invoices for services to the Sustainable Energy Division and distributed allocated amounts to GSE, NHEC, and UES. (Refer to the Final PUC Audit Report of the RE-CORE issued on June 24, 2011 for additional information).

Of the total $7,016,982 grant received by the Utilities, $1,728,000 was used to establish Revolving Loan Funds. Specifically, each utility received the following:

| | |
|---|---|
| GSE | $302,077 |
| NHEC | $200,000 |
| PSNH | $500,000 |
| UES | $725,000 |

Audit reviewed the GSE activity within general ledger account #8830-2-0000-20-2141-2425 for both expenses (lending activity) and revenues (repayments). A reconciliation of the Loans System data with the general ledger was provided for the period ending 12/31/2012:

| | |
|---|---|
| Original Loan Balance | $302,077 |
| Principal Outstanding 12/31/2012 | $ (15,398) |
| **Available to Lend** | **$ 286,679** |

**From 2011 REPORT**

*Docket DE11-213 regarding on-bill financing was opened after the audit report was issued, and GSE filed a tariff with the Sustainable Energy division. On 11/28/2011, the PUC Staff recommended the tariff be approved, in essence increasing the maximum residential loan amount from $500 to $7,500 and extending the repayment period from 24 to 84 months. The proposed tariff also "converted an existing municipal revolving loan fund to a non-residential program that will include municipal, commercial and industrial entities...with loan amounts less than or equal to $50,000 per project. A participating customer is limited to $150,000 per year in loan funds with no limit on the number of projects at the sole discretion of National Grid. The proposed tariff would also extend the repayment period ...from 24 months to 120 months." Because the on-bill tariff docket and filing took place late in the test year, the approved tariff was effective January 1, 2012.*

As noted in the 2011 Audit Report issued in May 2013, the National Grid general ledger details the unused RGGI (initial) grant for Re-CORE programs to be $87,934 at 12/31/2011. The grant period ended 12/31/2010. The balance was reflected in account #242045. Audit verified that the fund was transferred at July 2012 into the Liberty general ledger account 8830-2-0000-20-2141-2424. Other than the transfer, there was no other activity. The balance remains on the books as of 12/31/2012. **Audit Issue #2.**

## Audit Issue #1

## Presentation of 2012 Program Year

### Background

On March 3, 2013, a final quarterly report of the 2012 CORE program was filed with the NH PUC. The total for GSE 2012 CORE expenses was **$1,414,403**.

### Issue

With the July 2013 shareholder incentive, the total expense figure had been adjusted to **$1,473,400**.

A revised pivot table provided to PUC Audit in November 2013 which reflected **$1,476,072**. Audit conducted a site audit in January and February 2014.

A draft audit report was issued on May 6, 2014. The Company provided a revised total of **$1,499,412** for the 2012 CORE expenses, indicating that adjustments were noted and included. Audit was unable to determine the accuracy of eight journal entries identified as TSA related.

With the journal entry adjustments, the originally reported expense total and related fund balance activity such as monthly interest calculations, need to be updated with the reported revised 2012 adjusted information.

### Recommendation

The Company must compile a revised 2012 shareholder incentive package, including the fund balance and carry-forward reconciliation to the 2012 general ledger. Any updates to revenues, expenses, and interest should be identified. It is recommended that the revised incentive documentation be provided as soon as possible, but not later than 30 days from the date of this report.

### Company Comment

On May 22, 2014, the Company provided Audit with TSA invoices and spreadsheets for four months' TSA invoices, along with the explanation: *"These are the TSA bills from National Grid that support the amounts I reported below. These are initial bills which do not have any detail backup from National Grid. A final accounting is provided a month or so later and any changes are reflected in the next available initial bill as a prior month adjustment (DR or CR). The invoice detail files that are attached are the final accounting details. I explained the billing* *process to Staff around Feb 1, 2013 along with representatives from National Grid. They too were asking about the backup to the initial invoices and understood that the process only allows for billing back up on the final accounting."*

**Audit Comment**

Audit reviewed the four monthly TSA invoices along with the pivot table detail which included significant data for both Energy North and Granite State Electric. Evaluation of the adequacy of the allocations could not be determined.

Audit restates the recommendation that within one month, the Company provide a revised 2012 shareholder incentive calculation.

## Audit Issue #2

## Re-CORE Grant Funds

### Background

In 2010, the four participating electric utilities applied for and received a grant from the Regional Greenhouse Gas Initiative Fund. The grant term expired 12/31/2010.

### Issue

As was identified in the 2011 CORE audit, $87,934 of the original re-core grant funds remains unspent as of 12/31/2012.

### Recommendation

The Company should petition the Commission for authority to use the funds from the re-core grant in the 2015 CORE program.

### Company Comment

National Grid provided explanation that the $87,934 unspent funds is earned incentive compensation from prior years. As part of Liberty's final working capital adjustment on the sale, Liberty returned the funds to Grid...this is not unspent CORE funds.

### Audit Comment

Audit reviewed a string of emails provided along with the Company Comment, along with the PUC Audit report, dated June 24, 2011 relating to the Re-CORE grant funded by the Greenhouse Gas Emissions Reduction Fund. Audit agrees that the funds appear to have been mis-posted by National Grid. The total portion of the Re-CORE grant applicable to Granite State Electric was $1,169,608 + final invoice including incentives $34,782.

Audit requested clarification from the Company of when the final capital adjustment was completed and was informed that the money was returned to National Grid in June 2013.

Audit also agrees that with the working capital adjusting entry, the $87,934 no longer represents funds for which permission to use in any future CORE year is required. The funds appear to have been appropriately adjusted on the financial records of both Liberty and National Grid.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

**Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.**

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Docket #: 10-188-1 Printed: May 28, 2014

## FILING INSTRUCTIONS:

a) **Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) **Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**

c) **Serve a written copy on each person on the service list not able to receive electronic mail.**

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