

Public Service of New Hampshire
Final Audit Report
DE 12-262
2013 CORE Program

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: December 18, 2014

AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor
Anthony Leone, Examiner

SUBJECT: Public Service of New Hampshire (PSNH)
DE 12-262 - 2013 CORE
FINAL Audit Report

TO: Tom Frantz, Director NH PUC Electric Division
Les Stachow, Assistant Director, NH PUC Electric Division
James Cunningham, NH PUC Analyst III

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 2013. The four participating electric utilities, Unil 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. (Northern) and EnergyNorth (ENG) filed a joint petition for the program years 2013 through 2014. Each utility was audited individually.

Audit appreciates the assistance of Tom Belair, Manager; Rhonda Bisson, Manager; Issa Ansara, Senior Analyst; and Pam Moriarty, Analyst.

Approved 2013 Programs

The utilities submitted a joint energy proposal to the Commission on 9/17/2012 for the program years 2013 through 2014. An update to the filing was provided and included in the Settlement Agreement dated 12/14/2012. The Commission approved the Agreement by Order #25,462 on 2/1/2013. The following summarize PSNH's 2013 energy efficiency programs:

Residential – Income Qualified
Home Energy Assistance Program (HEA)

Residential – Non-Income Qualified
Energy Star Homes (includes Geothermal)
NH Home Performance with Energy Star (HPwES)

Energy Star Appliance Program
Energy Star Lighting Program
Commercial and Industrial
Large Business Energy Solutions Program
Small Business Energy Solutions Program
Educational Programs

PSNH also offers a Smart Start Loan Program to municipal customers, an Education Enhancement – C&I Customer Partnership program, and a RFP Program for Competitive and Economic Development.

Program Updates for 2013

As a result of the SB 323-VEIC Independent Study of Energy Policy Issues, the CORE programs have incorporated the following recommendations made by the Energy Efficiency and Sustainable Energy Board (EESB Board) (see 9/17/2012 filing pages 8 – 10):

- Coordinate planning and delivery of training activities for HEA program with the NH Office of Energy and Planning (OEP);
- Develop shared IT resources (among Utilities and OEP and Community Action Agencies) and common reporting standards for HEA program;
- set more aggressive goals by using historical kWh savings trends as a baseline and adjusting the baseline for changing factors such as available funding, measure costs, measure life and energy codes;
- with the passage of SB252, signed into law on 6/7/2012, educate state and local governments regarding energy performance contracts (EPC) for terms up to 20 years;
- coordinate between Electric and Gas Utilities and cross-franchise customers to provide better service and eliminate duplication;
- provide education and training programs to inform the public regarding new home construction techniques supporting the Energy Star 3.0 standard and energy code training;
- include multi-family dwellings in both the HPwES and fuel neutral Energy Star Homes Programs;

HPwES Update

PSNH, UES, and NHEC have collaborated with the New Hampshire Community Development Finance Authority (CDFA) and the BetterBuildings Program. GSE did not participate. Homeowners enrolled in the HPwES program are eligible to receive rebates (up to \$4,000) on certain measures, with 50% funded by SBC funds, and the other 50% of the rebate funded through the BetterBuildings Program. Homeowners may also utilize BetterBuildings funds for on-bill financing. The CDFA grant period ended 4/30/2013.

Regarding the Regional Greenhouse Gas Initiative (RGGI) funding

House Bill 1490 passed on 6/23/2012 updating RSA 125-O:23. In October 2012, the Commission, by Order #25,425 in docket DE10-188, approved a budget for use of the

RGGI funds pursuant to HB 1490 which went into effect January 1, 2013, without the signature of the Governor. The law replaced the Greenhouse Gas Emission Reduction Fund with a new Energy Efficiency Fund. Distribution of funds in excess of the \$1 threshold price for carbon allowances were required to be rebated to all default service electric ratepayers. The remaining proceeds “shall be allocated by the commission as an additional source of funding to electric distribution companies for core energy efficiency programs that are funded by SBC funds”.

Order #25,425 also instructed the electric utilities regarding the use of the remaining 2012 funds from the Greenhouse Gas Emission Reduction Fund (2012 RGGI Expansion) and the allocation of 15% of the money for Low Income Home Energy Assistance (HEA). An incentive was not authorized for the HEA, while a flat 8% was authorized on the remaining programs. Additionally the RGGI Expansion funds were to be accounted for separately from the regular Core SBC funds.

The Order outlined the budget as follows:

Program	Budget	Incentive	Total Budget
HEA	\$1,490,000	\$ -0-	\$1,490,000
HPwES	\$ 17,749	\$ 1,420	\$ 19,169
Energy Star Appliances	\$ 50,000	\$ 3,999	\$ 53,999
Large Business Retrofit	\$ 764,847	\$ 61,188	\$ 826,035
Large Business New	\$ 442,253	\$ 35,380	\$ 477,633
Small Business Energy Solutions	\$ 274,225	\$ 21,938	\$ 296,163
Education	<u>\$ 25,000</u>	<u>\$ 2,000</u>	<u>\$ 27,000</u>
Grand Total	\$3,064,074	\$125,925	\$3,189,999

Audit reviewed the budgets as well as the actual funds spent, as reported in each utility’s shareholder incentive package for the RGGI 2012 Expansion. Each was received with the 2013 incentive package in mid-2014. The following summarizes the BUDGET:

	Reported Budgets per the 2013 Incentive Filing of RGGI 2012				
2012 Greenhouse Gas Emissions Fund	Granite State	PSNH	NHEC	UES	TOTAL
HEA	\$ 106,932	\$ 989,642	\$ 135,841	\$ 257,585	\$ 1,490,000
HEA PI - 0%	\$ -	\$ -	\$ -	\$ -	\$ -
HPwES	\$ 17,749	\$ -	\$ -	\$ -	\$ 17,749
HPwES PI - 8%	\$ 1,420	\$ -	\$ -	\$ -	\$ 1,420
Energy Star Appliances	\$ 4,261	\$ 36,517	\$ 3,476	\$ 5,745	\$ 49,999
Energy Star Appliances PI - 8%	\$ 341	\$ 2,921	\$ 278	\$ 460	\$ 4,000
Total Residential Programs	\$ 128,942	\$ 1,026,159	\$ 139,317	\$ 263,330	\$ 1,557,748
Total Residential PI	\$ 1,761	\$ 2,921	\$ 278	\$ 460	\$ 5,420
GRAND TOTAL RESIDENTIAL	\$ 130,703	\$ 1,029,080	\$ 139,595	\$ 263,790	\$ 1,563,168
Large Business Retrofit	\$ 10,000	\$ 651,847	\$ -	\$ 103,000	\$ 764,847
LB Retrofit PI - 8%	\$ 800	\$ 52,148	\$ -	\$ 8,240	\$ 61,188
Large Business New Equip/Const	\$ 90,000	\$ 213,000	\$ 70,000	\$ 69,253	\$ 442,253
LB New PI - 8%	\$ 7,200	\$ 17,040	\$ 5,600	\$ 5,540	\$ 35,380
Small Business Energy Solutions	\$ 10,000	\$ 230,000	\$ 34,225	\$ -	\$ 274,225
SM Energy PI - 8%	\$ 800	\$ 18,400	\$ 2,738	\$ -	\$ 21,938
Education	\$ 2,130	\$ 18,259	\$ 1,738	\$ 2,873	\$ 25,000
Education PI - 8%	\$ 170	\$ 1,461	\$ 139	\$ 230	\$ 2,000
Total C&I Programs	\$ 112,130	\$ 1,113,106	\$ 105,963	\$ 175,126	\$ 1,506,325
Total C&I PI	\$ 8,970	\$ 89,048	\$ 8,477	\$ 14,010	\$ 120,506
GRAND TOTAL C&I	\$ 121,100	\$ 1,202,154	\$ 114,440	\$ 189,136	\$ 1,626,831
Combined Expenses	\$ 241,072	\$ 2,139,265	\$ 245,280	\$ 438,456	\$ 3,064,073
Combined Shareholder Incentives	\$ 10,731	\$ 91,970	\$ 8,755	\$ 14,470	\$ 125,926
COMBINED GRAND TOTAL	\$ 251,803	\$ 2,231,235	\$ 254,035	\$ 452,926	\$ 3,189,999

PSNH, acting as the lead utility, provided an invoice to the NHPUC for \$3,064,072 on 2/4/2013 which was distributed to the utilities based on the Combined Expenses identified in the budget above. PSNH received \$2,139,265.

Audit reviewed the GL Acct 242RG799 and noted the billing of \$3,064,074 to the NH PUC as well as the payments to the other utilities for their respective 2012 RGGI Expansion programs.

The following summarizes the reported ACTUALS spent using the 2012 Greenhouse Gas Emissions Fund. Refer to the specific utility audit report for details regarding any over or under spending of the 2012 RGGI Expansion budget.

	Reported ACTUALS per the 2013 Incentive Filing of RGGI 2012				
2012 Greenhouse Gas Emissions Fund	Granite State	PSNH	NHEC	UES	TOTAL
HEA	\$ 105,218	\$ 989,376	\$ 147,761	\$ 258,030	\$ 1,500,385
HEA PI - 0%	\$ -	\$ -	\$ -	\$ -	\$ -
HPwES	\$ 17,749	\$ -	\$ -	\$ -	\$ 17,749
HPwES PI - 8%	\$ 1,420	\$ -	\$ -	\$ -	\$ 1,420
Energy Star Appliances	\$ 5,001	\$ 36,517	\$ 3,960	\$ 873	\$ 46,351
Energy Star Appliances PI - 8%	\$ 400	\$ 2,921	\$ 317	\$ 70	\$ 3,708
Total Residential Programs	\$ 127,968	\$ 1,025,893	\$ 151,721	\$ 258,903	\$ 1,564,485
Total Residential PI	\$ 1,820	\$ 2,921	\$ 317	\$ 70	\$ 5,128
GRAND TOTAL RESIDENTIAL	\$ 129,788	\$ 1,028,814	\$ 152,038	\$ 258,973	\$ 1,569,613
Large Business Retrofit	\$ 7,640	\$ 629,674	\$ -	\$ 118,550	\$ 755,864
LB Retrofit PI - 8%	\$ 611	\$ 50,374	\$ -	\$ 9,484	\$ 60,469
Large Business New Equip/Const	\$ 103,408	\$ 227,899	\$ 41,451	\$ 66,642	\$ 439,400
LB New PI - 8%	\$ 8,273	\$ 18,232	\$ 3,316	\$ 5,331	\$ 35,152
Small Business Energy Solutions	\$ -	\$ 237,810	\$ 50,328	\$ -	\$ 288,138
SM Energy PI - 8%	\$ -	\$ 19,025	\$ 4,026	\$ -	\$ 23,051
Education	\$ 2,056	\$ 18,244	\$ 1,782	\$ 2,839	\$ 24,921
Education PI - 8%	\$ 164	\$ 1,460	\$ 143	\$ 227	\$ 1,994
Total C&I Programs	\$ 113,104	\$ 1,113,627	\$ 93,561	\$ 188,031	\$ 1,508,323
Total C&I PI	\$ 9,048	\$ 89,090	\$ 7,485	\$ 15,042	\$ 120,666
GRAND TOTAL C&I	\$ 122,152	\$ 1,202,717	\$ 101,046	\$ 203,073	\$ 1,628,989
Combined Expenses	\$ 241,072	\$ 2,139,520	\$ 245,282	\$ 446,934	\$ 3,072,808
Combined Shareholder Incentives	\$ 10,868	\$ 92,012	\$ 7,802	\$ 15,112	\$ 125,794
COMBINED GRAND TOTAL	\$ 251,940	\$ 2,231,532	\$ 253,084	\$ 462,046	\$ 3,198,602

2012 RGGI Expansion

As discussed earlier, the 2012 RGGI Expansion funds were to be accounted for separately. Below is a table showing the funds PSNH spent. Audit notes that PSNH did overspend their overall budget by an immaterial \$255. On October 10th 2014, NH PUC paid out to PSNH a Performance Incentive based on actual expenses of \$92,267 which is comprised of the earned \$92,012 and the overspending of \$255.

Program	Budgeted Amount	Actual as of 8/31/2013	Variance	% Variance
Energy Star Appliance	\$ 36,517	\$ 36,517	\$ -	100.0%
Home Energy Assistance (HEA)	\$ 989,642	\$ 989,376	\$ (266)	100.0%
Total Residential	\$ 1,026,159	\$ 1,025,893	\$ (266)	100.0%
C&I New Construction	\$ 213,000	\$ 227,899	\$ 14,899	107.0%
Large C&I Retrofit	\$ 651,847	\$ 629,674	\$ (22,173)	96.6%
Small C&I Retrofit	\$ 230,000	\$ 237,810	\$ 7,810	103.4%
Educational Programs	\$ 18,259	\$ 18,244	\$ (15)	99.9%
Total C&I	\$ 1,113,106	\$ 1,113,627	\$ 521	100.0%
Total Expenses all Programs	\$ 2,139,265	\$ 2,139,520	\$ 255	100.0%
Total Expenses Less HEA	\$ 1,149,623	\$ 1,150,144	\$ 521	100.0%
Flat 8% PI excl. HEA	\$ 91,970	\$ 92,012	\$ 42	100.0%
Total Expenses with PI	\$ 2,231,235	\$ 2,231,532	\$ 297	100.0%

According to the 2012 RGGI Expansion Work Order Detail dated 7/31/2014 submitted by PSNH, there were no other expenses charged to the 2012 RGGI Expansion program after 8/31/2013 due to all funds being exhausted. The Detail also indicates that the ending charge for the program was \$2,231,491. This amount is the total expenses and the estimated PI of \$91,970.

RGGI Revolving Loan Fund (RLF)

The following information was submitted by PSNH on page 38 in their 4th Qtr 2013 Energy Efficiency CORE Report and verified to the RGGI RLF Reconciliation provided by PSNH during the audit.

Cumulative Loan Activity	
Description	Amount
Grant Money received-RLF	\$690,000.00
Consumer Loans (all years)	\$(856,124.00)
Loan Repayment (all years)	\$414,099.00
Current Balance	\$247,975.00
Loans in Process	\$(23,751.00)
Available to Lend	\$224,224.00

The RLF was part of a sustainable energy grant approved by the Governor and Council in August 2009. The original term of the grant was through June 30, 2010, with approved extension to December 31, 2010. Specifically, of the \$7,016,982 grant received by the Utilities, \$1,728,000 was used to establish Revolving Loan Funds. 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. PSNH was initially granted \$500,000 and by Secretarial Letter added \$190,000 during the 2013 program year bringing it to \$690,000

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. Customers are able to use the loan fund to pay for the customer portion of an energy 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 are minimal and post to the NHCOR activity. 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.

PSNH Mid-Year Adjustments

On 7/26/2013, Commission Order #25,554 approved, on a temporary basis, amendments to the HEA Program due to a delay in Federal Funding. The changes include among other things, increasing the per-customer spending cap from \$5,000 to \$8,000 (for electric utilities only) to better serve low-income residents. This change was extended to the end of 2013 via Secretarial Letter on 11/1/2013 and on 12/30/2013 the change was extended through 2014 by Order #25,615.

On 11/21/2013 by letter to the Commission, PSNH transferred \$375,000 from the HPwES to the HEA program. Audit confirms the letter is part of DE 12-262 dated 11/21/2013 and that both of the amounts in question are less than 20% of that program's individual budget as submitted to the Commission on 12/14/12 and revised on 12/18/12.

CORE Energy Efficiency SBC

Budget vs Actual

The following information depicts the budgeted expenses as found in "Attachment H revised" filed 12/18/12 vs the actual amounts filed by PSNH. The table does include the \$61,431 of Smart Start Expenses and Smart Start Incentive.

	Budget	Actual	%
Residential	\$ 9,065,357	\$ 9,529,023	105%
C&I	\$ 9,357,200	\$ 8,426,865	90%
Smart Start	\$ 73,600	\$ 61,431	83%
Sub-total	\$ 18,496,157	\$ 18,017,319	97%
2% Set Aside	\$ 284,551	\$ 210,693	74%
Est. PI	\$ 1,473,804	\$ 1,366,369	93%
Grand Total	\$ 20,254,512	\$ 19,594,381	97%

Revenue

Total Funding Sources for the calendar year 12/31/2013 are summarized in the table below and a detailed analysis of each source follows:

Program Funding	
SBC Funding	\$14,227,565
FCM Revenue	\$2,047,466
FCM Expenses	\$(100,375)
RGGI Proceeds	\$4,726,951
Cumulative Interest	\$182,861
Total Collections	\$21,084,468

(SBC) System Benefits Charge

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 of \$0.0033 was charged was tested for compliance for the month of December 2013. The table below details the month of December 2013 and verifies the

Core Energy Efficiency portion of the SBC is correctly calculated from the total kWh for that month. The full 2013 year was verified in the EAP audits of the program years 2013 and 2014 without exception.

December 2013	
KWH Sales	686,204,457
SBC Rate	\$0.00330
Total SBC	\$2,264,475
Core Funds @ \$.0018	\$1,235,168
EAP Funds @ \$.0015	\$1,029,307
	\$2,264,475

Forward Capacity Market

Audit reviewed the PSNH work order 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, 2013). Additionally the FCM Expenses were (properly) not included in the shareholder incentive calculation.

2013 ISO Information	
ISO Revenue	\$ 2,047,466
ISO Expenses	\$ (100,375)
Net Revenue	\$ 1,947,091

2013 RGGI Auction Proceeds

PSNH indicated they received a total of \$4,726,951 from the quarterly RGGI auctions. This figure matches records on file with the PUC Business Office and was verified to the PSNH accounts 242RG7CL and 242RG1QJ.

2013 RGGI Auction Proceeds	
1st Quarter	\$1,334,256
2nd Quarter	\$1,208,508
3rd Quarter	\$975,678
4th Quarter	\$1,208,509
Total RGGI Proceeds	\$4,726,951

Interest

Interest of \$182,861 represents the combination of both the CORE and the 2% RSA 125-O set aside. Interest is added for both into the CORE as a funding source. Audit verified that the 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 interest rate did not change throughout the calculated year from the 3.25% published. The specific interest amounts were of \$169,213 and \$13,648 respectively.

Expenses

Performance Incentive

PSNH submitted their Annual Report and Performance Calculations on June 2, 2014. That report included a Performance Incentive calculation indicating PSNH earned \$1,366,369. The following table verified that PSNH correctly excluded the FCM Expenses, and subtracted the HPwES Fuel Neutral non-electric expenses and the Smart Start Labor and the Smart Start Performance Incentive in order to arrive at the amount of expenses to base the Performance Incentive on.

Description	Amount
End of Year Reconciliation Expenses	\$ 18,017,319
Less HPwES Fuel Neutral Expenses	\$ (1,610,300)
Less Smart Start Incentive & Labor	\$ (61,434)
Total Expenses for PI	\$ 16,345,585

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...” According to the PSNH accounting reconciliation at year end 2013, the balance in the 125-O:5 set aside is comprised of:

\$ 600,000	2013 Beginning Balance
\$ 210,693	2% Set Aside
<u>\$ (210,693)</u>	Cost of Projects at PSNH Facilities
\$ 600,000	2013 Ending Balance

Audit calculated the potential 2% set-aside on the verified SBC of \$14,227,565 at \$284,551. That calculated figure would have surpassed the cap on the reserve of \$600,000. Therefore the amount noted for the 2013 2% set-aside was \$210,693. Audit reviewed the 2% set aside reconciliation provided by PSNH and verified that the balance was no more than the allowed \$600,000.

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. 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.

According to PSNH, two lighting retrofit projects were completed at the total cost of \$210,693 and a combined annual kWh savings of 314,838. More details on the projects can be found in the “PSNH Report on the use of SBC Funds” filed with the Commission on August 22, 2014 as part of DE 12-262.

Program Expenses

A summary of the program expenses incurred by PSNH is detailed in the table below. Each category was detailed by expense type and the percentage of rebates per category is found on the right hand side for those programs that are designed to provide fiscal benefits to customers rather than just informational benefits. Following the table is a summary of the invoices reviewed for each program. Additionally, according to PSNH some expenses are not recorded until as late as the following February due to invoices being received from projects that were completed before the year ended. Audit reviewed the GL Account 254P97CL along with a reconciliation provided by PSNH dated 1/21/14 and it matched the expenses reported by PSNH.

Residential Programs									
Program Name	Internal Admin	External Admin	Audits	Rebates & Services	Internal Impl.	Marketing	M & E	Total by Program	Rebates as % of all Expenses
EnergyStar Lighting	\$ 30,920	\$ -	\$ -	\$ 756,559	\$ 89,193	\$127,209	\$ 4,901	\$ 1,008,782	75%
EnergyStar Appliance	\$ 69,827	\$ -	\$ -	\$ 2,006,377	\$ 75,151	\$ 39,421	\$ 10,578	\$ 2,201,354	91%
EnergyStar Homes	\$ 30,919	\$ -	\$ -	\$ 766,526	\$ 102,493	\$ 10,821	\$ 8,843	\$ 919,602	83%
Energystar Geothermal	\$ 13,205	\$ -	\$ -	\$ 143,224	\$ 25,722	\$ 500	\$ 621	\$ 183,272	78%
HEA	\$ 97,133	\$ -	\$ -	\$ 3,019,615	\$ 84,191	\$ 1,603	\$ 32,019	\$ 3,234,561	93%
HPwES	\$ 66,735	\$ 89	\$ -	\$ 1,316,372	\$ 249,469	\$ 14,423	\$ 63,998	\$ 1,711,086	77%
Customer Engage Pilot	\$ 13,448	\$ -	\$ -	\$ 155,119	\$ 98,552	\$ -	\$ 3,245	\$ 270,364	
	\$322,187	\$ 89	\$ -	\$ 8,163,792	\$ 724,771	\$193,977	\$124,205	\$ 9,529,021	
Expenses as % of total Res.:	3%	0%	0%	86%	8%	2%	1%	100%	

Non-Residential Programs									
Program Name	Internal Admin	External Admin	Audits	Rebates & Services	Internal Impl.	Marketing	M & E	Total by Program	Rebates as % of all Expenses
C&I New Const.	\$ 76,676	\$ -	\$ 81,408	\$ 2,024,529	\$ 342,895	\$ 12,316	\$ 16,940	\$ 2,554,764	79%
Large Bus. Solutions	\$107,961	\$ -	\$171,196	\$ 1,070,851	\$ 410,629	\$ 18,419	\$ 71,649	\$ 1,850,705	58%
Small Bus. Solutions	\$123,034	\$ 58	\$ 30,621	\$ 2,728,373	\$ 480,721	\$ 24,022	\$ 28,854	\$ 3,415,683	80%
	\$307,671	\$ 58	\$283,225	\$ 5,823,753	\$1,234,245	\$ 54,757	\$117,443	\$ 7,821,152	74%
Expenses as % of total C&I:	4%	0%	4%	74%	16%	1%	2%	100%	
Education Programs	\$ -	\$ -	\$ -	\$ 136,463	\$ 21,870	\$ 6,529	\$ 150	\$ 165,012	
C&I RFP Pilot	\$ 19,647	\$ -	\$ 11,868	\$ 384,689	\$ 18,848	\$ -	\$ 650	\$ 435,702	
Customer Partnerships	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,000	
Smart Start for Muni.	\$ -	\$ -	\$ -	\$ -	\$ 22,819	\$ -	\$ -	\$ 61,431	
	\$ 19,647	\$ -	\$ 11,868	\$ 521,152	\$ 63,537	\$ 11,529	\$ 800	\$ 667,145	
Total C&I	\$327,318	\$ 58	\$295,092	\$ 6,344,905	\$1,297,782	\$ 66,286	\$118,243	\$ 8,488,296	
Total Res.	\$322,187	\$ 89	\$ -	\$ 8,163,792	\$ 724,771	\$193,977	\$124,205	\$ 9,529,021	
Total Res. and C&I	\$649,505	\$ 147	\$295,092	\$14,508,697	\$2,022,553	\$260,263	\$242,448	\$18,017,317	

**Smart Start total includes Performance Incentive of \$38,612

The Smart Start total is a combination of the labor expenses of \$22,819 and the Performance Incentive of \$38,612. Of note is that the Smart Start PI is not included in the total amount of expenses when calculating the PI for the SBC portion of the CORE program.

Residential EnergyStar Lighting Program - \$1,008,782

As noted in the 9/17/12 Filing, this program will continue to increase the use and availability of energy efficient lighting products in New Hampshire. The program is open to all residential customers and will (1) offer rebates for interior and exterior ENERGY STAR labeled bulbs and fixtures, (2) promote the efficiency and environmental benefits of the latest lighting technologies, and (3) leverage the ENERGY STAR branding across three programs - Lighting, Homes, and Appliances.

Audit reviewed several invoices from Energy Federation, Inc. (EFI) concerning mail in rebates for PSNH Rate payers. Audit has also reviewed the Purchase Order for EFI and found no exceptions in the handling of the customer lighting rebate process or the payments. Of note is that EFI also handles mail in rebates for the EnergyStar Appliance program and similar programs for at least one other NH Electric Utility. This allows the NH Electric Utilities to share and lower the overall cost of the program.

Residential EnergyStar Appliance Program - \$2,201,354

Noted on page 30 of the 9/17/2012 filing is a description of the specific electric and gas rebates for itemized appliances. Rebates range from \$10 through \$1,500.

The first invoice reviewed indicated a charge of \$2,605.13 by Energy Federation, Inc. (EFI) for following up on PSNH's portion of the 92 "Rebate Flaws" in the month of August 2013. The invoice noted that the charges were for Management, Phone Time and Customer Correspondence fees from the "Rebate Flaws". Of note is that these charges only represent 79.37% of the charges incurred that month by EFI, with the rest of the charges to be distributed to other NH Utilities accordingly.

The second invoice reviewed indicated a rebate amount of \$104,966.75 to EFI. This amount represents money EFI sent to customers for Energy Star Appliance rebates and any applicable fees charged by EFI to process the customer payments. The invoice contained several line items for each type of item rebate requested. For a full list of rebates available see page 30 of the 9/17/2012 Filing.

Residential EnergyStar Homes Program - \$919,602

As noted on page 24 of the 9/17/2012 filing, this program is fuel neutral designed to encourage homeowners and builders to build homes that are at least 15% more efficient than homes built to the 2009 International Energy Conservation Code (IECC). The program provides home builders with technical assistance, financial incentives, and instruction relating to compliance with Energy Star standards. New single family and multi-family projects are eligible, as are complete rehabilitations of existing structures. Project rebates are based on a sliding scale of Home Energy Rating System (HERS) results. The electric and gas utilities will coordinate to provide rebates for high efficiency gas HVAC equipment.

The invoice reviewed by Audit indicated the Keene Housing Authority finished construction of a new 6-unit housing complex in Swanzey, NH. According to the

documentation, the complex qualified for \$7,200 in rebates, but with the cap at \$1,000 per unit, the Keene Housing Authority was given a rebate check of \$6,000.

Residential EnergyStar Geothermal (part of EnergyStar Homes) - \$183,272

As found on page 50 of the 9/17/12 Filing, “This enhancement will provide an incentive for customers to install geothermal and air source heat pumps as part of the ENERGY STAR Homes Program. New houses built in this program must still meet the minimum ENERGY STAR requirements in order to qualify for the geothermal rebate.”

The invoice reviewed indicated the customer had a geothermal system installed and that the third party contractor, GDS, verified the system and conducted an audit to certify compliance with the HERS rating system index. The customer was eventually paid a rebate of \$4,500, based upon the 3,381 conditioned square feet at a rebate amount of \$1.75 per square foot.

Residential Home Performance with EnergyStar (HPwES) - \$1,711,086

Noted on page 27 of the 9/17/2012 filing, regarding the HPwES program, the electric utilities will continue to provide fuel neutral weatherization services similar to those found in the HEA program. The HPwES is to use the same billing rates in order to ensure adherence to the established statewide rates.

Audit reviewed two invoices. The first indicated seven customers received energy efficiency service updates and that the combined rebate was \$4,000 or lower per customer. All invoices for HPwES updates flow through OTTER, and therefore ensure adherence to the statewide established rates.

The second invoice reviewed was charged by Horizon Residential Energy Services and the invoice noted that it was for Inspection, Administration, Mileage and Clerical fees associated with performing inspections of HPwES jobs completed around the state. In addition, PSNH indicated if it finds a job was not performed according to the rebate submitted by the vendor, payment to the vendor is withheld until the services are performed and re-verified.

Residential Home Energy Assistance Program - \$3,234,561

Income qualified customers are eligible to receive up to \$5,000 (\$8,000 after the mid-year update) for insulation, weatherization, cost effective appliance and lighting upgrades, appropriate health and safety measures and possible heating system replacement.

Coordination between the Community Action Agencies and the participation of eligible customers enrolled in the SBC funded Electric Assistance Program helps to enroll the vulnerable population.

The filing and Order indicate that 15% of the total budget, regardless of funding source, should be allocated to the HEA. Based on the budgeted expenses of \$18,657,557 as found in the filing page 109, and accounting for the \$375,000 transfer on 11/21/13

discussed in the “Mid-Year Adjustments” section, PSNH spent 102% of the budgeted amount as evidenced in the following table:

HEA Program	
Total Budgeted Expenses	\$ 18,567,557
HEA @ 15%	\$ 2,785,134
HEA Addition	\$ 375,000
Total Expected HEA	\$ 3,160,134
Total Actual HEA	\$ 3,234,561

As found on page 33 in Attachment A of the Settlement Agreement approved by Order #25,462, in order to maintain consistent pricing of the improvements for both the HPwES and the HEA programs, any vendor or energy service provider who performs work must do so at established statewide rates. These rates are established in a joint informal bidding process conducted every fall and Audit was informed that the result is an “all in” price the vendor would charge for the service being performed. Audit requested and received a copy of these rates in the form of a pricing sheet (Sheet). The Sheet was then compared to an invoice submitted to PSNH for a weatherization job. No exceptions were noted with the pricing of the services provided.

Concerning the availability of heating system replacements for HEA customers, Audit requested and PSNH provided this explanation about the tracking of those costs: “We do track the cost and energy savings in OTTER. A heating system replacement is modelled in TREAT like any other measure and included in the OTTER measure package. Because the cost for the system is not supposed to fall under the rebate cap, the system gets listed as an “other funding measure” and invoiced separately outside of OTTER. There is no fixed price list for heating systems; each system is priced individually on a case by case basis based on the specific needs of the home.”

Audit reviewed several invoices from various Community Action Agencies for compliance. Each invoice contained the standard admin fees and due to the fixed pricing found in the OTTER system, customers cannot be overcharged. In addition, Audit reviewed several screen shots from the OTTER system of specific jobs to properly determine that the third party service company who performs the work and submits the invoice in OTTER was not double billing weatherization measures installed. There were no exceptions noted.

Residential Customer Engagement Pilot - \$270,364

According to the 9/17/12 Filing, and authorized by Commission Order #25,315 the Residential Customer Engagement Pilot Program will be utilized as a tool to evaluate the effectiveness of using a behavioral-based energy efficiency program in New Hampshire before expanding the program to a larger audience of residential customers.

Audit reviewed an invoice dated 3/27/2013, received from OPOWER. The invoice indicated it covered Set-up, Configuration and Program License and Fees. The license and fees were incurred as a one-time cost. The set-up and configuration payment will recur as new residential customers are added to the pilot.

Audit reviewed the 2013 purchase order related to OPOWER, and the confidential contract with them. PSNH established the parameters to be associated with residential customers in the pilot. A random selection of approximately 200,000 residential customers was compiled which allowed OPOWER to randomly select 25,000 customers for the “treatment group” and 25,000 for the “control group”. The list of those customers was then sent to Navigant, a third party contracted by PSNH to ensure that the randomly selected groups were representative of PSNH’s residential customers.

The treatment group was then split 50/50, with one half receiving up to five directly mailed printed home energy reports over the course of a year, with noted comparisons to their usage for the same time period in the previous year and suggested customer specific ideas to save electricity. These customers earn rewards of one point per kWh saved. The redemption of the rewards is accomplished through specific cards offered through a designated web portal.

The other half of the treatment group receives up to five directly mailed printed home energy reports which compare their usage to the average of their “neighbors” (similar usage of approximately 100 other residential customers).

Both halves of the treatment group may receive monthly emailed home energy report statements, with links to web portals which direct the user to specific energy saving plans, suggestions, and reward redemptions for those participants in that half of the treatment group. The link to the web portal is also available on the printed reports for all the participants in the treatment group so they are aware of the program website.

The “control group” represents 25,000 customers who are similar to the treatment group except they do not receive the home energy reports. The usage of the control group is compared to the treatment groups to eliminate savings that may take place regardless of the pilot program. These customers are not provided feedback of any kind. The review of the usage is for data comparison only.

Large Business Energy Solutions Program

Noted in the 9/17/2012 filing (page 38) and the 12/4/2012 update, this program is designed for customers with a twelve month average demand of 200kW. Program customers will receive rebates for new construction, major renovations, failed equipment replacement, and replacement of inefficient equipment. Rebate amounts for new construction are the lesser of 75% of incremental costs or a one year payback, and for retrofit projects, the lesser of 35% or a one year payback. The filing also indicates that an initiative called Energy Efficient Schools will offer rebates up to 100% of incremental costs, with 5% of the Large Business Energy Solutions budget set aside for this portion of the program. Actual spending may be higher or lower depending on school building opportunities. PSNH indicated that no schools enrolled in the Energy Efficient School program in 2013.

Audit reviewed one invoice for the amount of \$45,731. The rebate was given to large grocer located in the state of NH for retrofitting some of their lighting and lighting

controls at their NH facility which was built in 2005 and was originally the recipient of new construction energy efficiency rebates. Further documentation in the rebate file indicated that through other rebate opportunities, the retrofit may be a “zero dollar out of pocket expense”. The project did meet all of the required ratios and Audit did not note any exceptions.

Small Business Energy Solutions Program

Noted within the 9/17/2012 filing (pages 40-41) this program is designed for business customers using less than a twelve month average of 200kW. Similar to the Large Business Energy Solutions program, this program is intended for new or retrofit projects. The rebate amount for new projects is the lesser of 75% or a one year payback, and for retrofit projects is the lesser of 35% for electric customers or a one year payback.

The first invoice reviewed indicated the client installed energy efficient lighting systems during the construction of a new building. The cost of the lights was \$23,140 and the rebate was \$17,355 or 75% of the cost.

Audit reviewed several more invoices for various companies receiving various energy efficiency updates. All of the invoices reviewed contained rebates of 50% as part of the “Turnkey Option” found in the 9/17/12 Filing. Audit requested and PSNH indicated that for these “Turnkey” invoices, PSNH contracts with various third party vendors through a competitive bidding process, assigning each one chosen vendor a certain part of the state. This vendor would locate prospective customers, educate them, recommend efficiency measures and install the measures.

C&I Education

The 9/17/2012 filing summarized the C&I educational programs as an integral part of raising awareness of energy efficiency. Specifically identified were Energy Code Training for all stakeholders; Commercial Energy Auditing classes which provide training to facility managers; C&I Customer Education includes training sessions for C&I customers and professionals; Energy Education for Students provides support for programs available to students from kindergarten through high school.

Audit reviewed one invoice for \$30,000. This invoice was dated 12/13/2012 from GDS Associates, Inc. for services performed relating to the development, planning, and execution of NH Energy Code Training workshops during the period of Fall 2012. Specifically, GDS held 5 workshops (3 Residential and 2 Commercial) during the months of September through November 2012, at an average cost of \$6,000 per workshop. The work order detail indicates the total cost was split between all of the utilities with 74.5%, or \$22,350 paid by PSNH and the remaining 25.5% paid by other NH Electric Utilities.

Audit Issue #1.

C&I RFP Pilot

As found in the 9/17/12 filing, the objective of this program is to promote competitive market development in the energy efficiency industry by encouraging third parties to bid for energy efficiency projects on a competitive basis. The RFP Program is

aimed at energy efficiency potential from large C&I projects that are not participating through other existing energy efficiency programs.

Audit reviewed one invoice in the amount of \$210,530 for energy efficiency rebate services performed at a local manufacturer in Keene, NH. The final cost of the measures was \$546,899.41 and the rebate amounted to 38% of the project cost.

C&I Customer Partnerships

As found in the 9/17/12 Filing, this program would allow PSNH to Partner with up to five customer groups to provide focused education to members on energy efficiency technologies and opportunities available in NH. Further, the format of the program is intentionally left open so as to accommodate the participants.

According to the reports submitted by PSNH to NH PUC Audit Division, PSNH spent \$5,000 of the \$32,500 budget. The \$5,000 was spent on Marketing expenses in December 2013. A review of the documents indicated that the Rochester Chamber of Commerce invoiced PSNH \$5,000 for services to be performed during the 2014 and 2015 calendar years. Audit requested and was provided with the proposal for funding relating to the Chamber's website. While the results of the expense will be noted in subsequent years, the upfront cost represented in the proposal was a one-time marketing expense incurred in program year 2013.

Marketing Expenses

As noted on page 10 of this report, Marketing expenses for the year sum to \$260,263, spread among all programs. Audit requested and was provided with documentation supporting \$48,742 and \$15,670 paid to Applied Proactive Technologies for education, lighting, appliances, and coupons for in-store rebates.

Marketing costs paid to Fletcher Media in the amount of \$34,976 were incurred for services related to graphic design and editing of the NHSaves website. The costs were allocated among CIEDU, ESAPP, HPwES, LIGHT, and SCIRET based on budget percentages.

Graphic Brokerage was paid a total of \$22,650 in June, July, September, and October for bill stuffers promoting the CORE programs.

Postage costs of \$80,944 were reflected in the LIGHT program in January 2013. PSNH indicated that the figure represented the total cost for PSNH to mail the NHSaves catalogs to their customers.

The Millennium Group was paid \$10,156 for advertisement artwork etc. on the website LinkedIn. Audit requested clarification of the advertisement and was told that the primary audience targeted was people involved with small businesses. The link on the website directs interested users to a specific PSNH CORE site for small businesses. The link is not to NHSaves.

The Millennium Group was paid \$9,998 for NHSaves website redesign (50% completed as of 12/31/2013), creative artwork and an online survey study.

Audit reviewed the NHCORE13 work order and did not see any marketing expenses relating to clothing for the employees of PSNH. Audit also requested clarification and was told that there were no purchases made for PSNH Energy Efficiency employees during 2013.

Smart Start for Municipalities

NHEC and PSNH were authorized by 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. The cost of the improvements are paid entirely by the Utility and the customer repays the Utility through on-bill financing payments calculated at no more than the monthly savings obtained.

Smart Start Loans	
Cumulative Payments to Contractors	\$ (7,260,236)
Cumulative Loan Repayments	\$ 5,314,831
Cumulative Outstanding Balance	\$ (1,945,405)
Total Funds Made Available	\$ 2,900,000
Total Left to Loan as of 12/31/13	\$ 954,595

Page 46 of the 9/17/12 Filing, the Smart Start Loan Performance Incentive is based on 6% of loans repaid. PSNH’s 2013 calculation is verified in the below table:

Smart Start Loans 2013 Only	
Loan Repayments-2013	\$ 643,526
6% of Repayments	\$ 38,612
PSNH Filed smart Start PI	\$ 38,612
	\$ (0)

Indirect Expenses

According to worksheets provided by PSNH, \$316,989 and \$327,167 of indirect charges were allocated over the Residential and C&I programs respectively. The total of these charges is \$644,156. All charges were spread over the Internal Admin Expense Category. PSNH indicated they allocate the expenses based on the budget of expenses for the various programs. Audit used this determination and verified the calculation of the Internal Admin charges currently reflected and filed by PSNH were accurate.

General Ledger Year-end Balance

As noted in the shareholder incentive package, Attachment F page 7 of 9, the PSNH 2013 General Ledger Transactions vs. Energy Efficiency Program Transactions page reflects the general ledger activity:

Beginning balance \$4,467,068
Ending balance \$4,123,458 for a net change during the year of \$(343,610)

Audit verified the reported ending balance to the December 2013 monthly reconciliation of account 254P9 and the proceeds from the 2013 quarterly RGGI auctions which are posted to account 242RG. Specifically:

12/31/2013 balance of account 254P9	\$(1,281,207)
242RG 3/2013 auction proceeds	\$ 1,334,256
242RG 6/2013 auction proceeds	\$ 1,208,508
242RG 9/2013 auction proceeds	\$ 975,678
242RG 11/2013 final disbursement of RGGI Fund	<u>\$ 1,886,223</u>
General ledger ending balances	\$ 4,123,458

Audit verified the activity on the page of the SHI which tied the general ledger to the Energy Efficiency carry-forward balance as noted on the subsequent page.

Carry-forward Balance

The carry-forward balance represents the availability of funds at each utility with anticipated expenses that have not yet posted to the general ledger but which have already been “reserved” for future use, and are thus considered not available. The reconciliation of program year activity to the GL year end was noted in Incentive filing.

Beginning Balance verified to Audited 2012 Ending Balance	\$ 1,091,720
Approved transfer to the RGGI RLF	\$ (190,000)
Approved transfer to the SmartStart RLF	<u>\$ (900,000)</u>
Adjusted beginning balance 1/1/2013	\$ 1,720

2013 Funding Sources:

System Benefits Charge Funding	\$14,227,565
Forward Capacity Revenue	\$ 2,047,466
Forward Capacity Expenses	\$ (100,375)
RGGI Quarterly Auction Proceeds received in 2013	\$ 3,518,442
Final RGGI Fund Disbursement received in November 2013	\$ 1,886,223
CORE Interest	\$ 169,213
RSA 125-O Interest	\$ 13,648
Adjustments to funding:	
Deduct the 11/2013 RGGI fund – approved for use in 2014	\$ (1,886,223)
Add 4 th 2013 quarterly RGGI auction received in 2014	<u>\$ 1,208,509</u>
Sub-total 2013 Funding	\$21,084,469
Final 2012 RGGI Fund disbursement received November 2013	<u>\$ 1,886,223</u>
Total Funding 2013	\$22,970,692

2013 Expenses

CORE expenses January – December 2013	\$(17,924,592)
Less SmartStart related expenses 2013	\$ 264,661
CORE 2013 expenses recorded in 2014	<u>\$ (357,388)</u>
NET 2013 CORE expenses	\$(18,017,319)
2013 Estimated Incentive	<u>\$ (1,366,369)</u>
Subtotal 2013 expenses	\$(19,383,688)
2013 use of 2% RSA 125-O set aside	<u>\$ (210,693)</u>
Total 2013 expenses	\$(19,594,381)

Net 2012 Carry-forward plus 2013 funding less 2013 expenses	\$ 3,378,031
#25,703 approving transfer to 2014 and 2015 program years	<u>\$ (1,491,809)</u>
Net 2013 Carry-forward Balance over-collection	\$ 1,886,223

On August 28, 2013 PSNH submitted a request to the Commission to transfer \$900,000 and \$190,000 (\$1,090,000 combined) of the 2012 ending balance to the Smart Start and Residential (RGGI RLF) loan programs respectively. The transfer was approved by Secretarial Letter dated October 28, 2013

On August 7, 2014, the Commission issued Order #25,703 approving the transfer of \$1,491,809 of the surplus funds from the Filed 2013 Ending Balance to the 2014 & 2015 Core Program years.

Additionally in November 2013, the NH PUC Business Office sent a check for \$1,886,223.37 to PSNH. These funds were designated the 2012 RGGI Carry-over Proceeds and comprise amounts that were estimated when transitioning from the Greenhouse Gas Emission Reduction Fund to the Energy Efficiency Fund. Per the PSNH FERC Acct 242 GL for the 2013 year, this amount was recorded on PSNH's books in the month of December 2013.

Audit Issue #1

Program Year Expenses

Background

Commission Order #25,462 authorized the continuation of the CORE programs to be administered by the CORE Utilities.

Issue

PSNH included in the 2013 program year, \$22,350 of expenses paid to GDS for NH Energy Code training sessions held from September 2012 – November 2012.

Expenses included in any one calendar year shareholder incentive calculation must be for that calendar year; and expenses that span multiple years must be broken down and charged over those years appropriately.

Audit Recommendation

PSNH should resubmit the 2013 performance incentive, reducing the overall expense used in the calculation by \$22,350.

Company Response

PSNH received an invoice from GDS Associates dated December 13, 2012 for training services held from September 2012 – November 2012. This invoice was charged to the 2013 program year, rather than the 2012 program year. PSNH agrees with the finding that this invoice should have been charged to the 2012 program year. PSNH will continue to closely monitor invoices received at the end of each program year to ensure each invoice is paid in the appropriate program year. PSNH's accounting system and procedures require an unvouchered liability entry for each invoice that will not be processed by year-end in order for the expense to be recognized in the closing program year. However, for invoices received after December 31st, it may not be possible to recognize the expense in the same program year as the services were rendered. Those expenses would be charged to the program year in which the invoice was received.

As shown below, the overall impact on PSNH's performance incentive of moving the \$22,350 expense from the 2013 program year to the 2012 program year is an overall increase of \$2.23.

2013 Performance Incentive Reduction

Decreasing the 2013 C&I Actual Expenses by \$22,350, reduces the performance incentive by \$2,053.97.

$$(\$22,350 \times 9.19\% = \$2,053.97)$$

2012 Performance Incentive Increase

Increasing the 2012 C&I Actual Expenses by \$22,350, increases the performance incentive by \$2,056.20.

$$(\$22,250 \times 9.20\% = \$2,056.20)$$

Overall Impact on Performance Incentive

$$\$2,056.20 + (\$2,053.97) = \$2.23$$

Because the impact on PSNH's performance incentive is insignificant, PSNH recommends that the 2012 and 2013 performance incentive not to be updated due to the immateriality.

Audit Comment

Audit concurs with the Company comment.