STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: October 5, 2009
AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner

SUBJECT: CORE Energy Programs – Unitil Energy Systems, Inc.
DE 07-106
Final Audit Report

TO: Tom Franz, 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 at Unitil Energy Systems, Inc. (UES) related to the CORE Energy Program for the calendar year 2008. The four electric utilities (UES, PSNH, NHEC, and GSE) filed a joint petition for the program year 2008 on September 28, 2007. The filing was revised February 29, 2008.

Audit thanks Chad Dixon, Director of Internal Audit at Unitil Service Corp. (USC), for his timely assistance during the audit process.

Summary of the Program

Commission Order 24,815 issued on December 28, 2007 approved the CORE energy efficiency program for calendar year 2008, as proposed by the regulated electric utilities. The proposal recommended offering the following programs:

1. Energy Star Homes
2. Home Energy Solutions
3. Energy Star Lighting
4. Energy Star Appliance
5. Home Energy Assistance for low income customers
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 program is funded through the System Benefits Charge (SBC), at $.0018 per kWh. The total SBC of $.003 is split between the Energy Efficiency (EE) program and the Low Income Electric Assistance program (EAP). For the first nine months of 2008, the total charge of $.003 was split with EE at $.0018 and EAP at $.0012. Per Commission Order 24,903, beginning on October 1, 2008, the EAP portion increased to the statutory limit of $.0015. (RSA 374-F: VIII (c)). The UES tariff on file at year end 2008 reflects the increase in the EAP portion and shows the total SBC to be $.0033. The increase in the total SBC is in compliance with RSA 374-F: VIII (b) and RSA 38:36. Notification from the Chairman of the PUC to the Secretary of State was documented as required, by letter dated May 1, 2001.

The Order also noted the FERC approval of a regional Forward Capacity Market (FCM) to be operated by the Independent System Operator for New England (ISO-NE). "Energy efficiency measures installed after June 16, 2006, that can be demonstrated to be operational during hours of peak electrical usage, are eligible to receive capacity payments through the FCM." (Order 24,815, page 4) The Order further noted that …"*All such capacity payments received would be used to supplement the Utilities' energy efficiency program budgets*". Expenses associated with the FCM were authorized to be netted against the capacity payment. Any under-funding would be offset with EE revenue from the SBC.

Utilities are required to provide the ISO-NE with the kW demand savings achieved through the use of the energy efficiency measures, with such reporting to the ISO to be noted as "Other Demand Resources" (ODR). Refer to the Forward Capacity section of this report.

Budget and Incentive for 2008

The budget on which the 2008 incentive calculation was based summed to $1,820,090 (per the detail in DE 07-106, CORE filing page 78). The Company Specific budget line reflects $81,050, inclusive of ISO-NE expenses in the amount of $42,050. $39,000 of the $81,050 was detailed to represent Unitil web-based tools.

The estimated ISO-NE costs of $42,050, as properly included in the filing estimate of expenses, were not included in the actual CORE program costs. **Audit Issue #1**.

The 8% calculated incentive was $145,607, based on the budget as filed in docket DE 07-106 of $1,820,090. For accounting purposes, the calculated incentive is reflected as a cost in the model used by Accounting, allocated equally across twelve months. An account number is not associated with the line on the model, but the accrued revenue reflects the incentive monthly cost among all of the other costs as well. The balance sheet account in which the ending accrual posts is account 173-13-01.

The incentive true-up, which was filed with the Commission on June 10, 2009 reflected the (as calculated) actual results for both calendar years 2007 and 2008. When questioned about the timing of the 2007 incentive true-up, UES noted that the true-up should be an annual calculation. However, due to a procedural oversight, the 2007 incentive true-up was not calculated until 2009. UES told Audit that the Company has subsequently reviewed and revised its procedures to ensure the incentive true-up is calculated and updated annually. The reported true-up figures, which have not been approved by the Commission at the time this Draft report is being issued, were:

2007 Shareholder Incentive True-up	$15,412
2008 Shareholder Incentive True-up	$26,059

Accounting re-ran the EE model, using the full trued-up figures as part of the regular program expenses, and recalculated the program interest, either as a funding source or an expense based on the net monthly activity. The adjusting entries to the shareholder incentive were posted in July 2009 as part of the June 2009 net EE closing entries. Total interest, based on the model, was debited to account 173 as a funding source, in the amount of $1,682, also as part of the regularly calculated monthly June interest entry.

Summary of *2008* Activity as Audited vs. Reported

	Audited	Reported
Total SBC Revenue	$2,204,890	$2,204,890
Total Interest on SBC	13,264	13,264
Subtotal SBC revenue	$2,218,154	$2,218,154
Total FCM Revenue	126,055	126,055
Calculated FCM Interest	19	-0-
Total Funding	$2,344,228	$2,344,209
Total Energy Efficiency Expenses	$1,573,957	$1,573,957
Incentive as Calculated by Audit	145,607	145,607
Subtotal EE expenses	$1,719,564	$1,719,564
Total FCM Expenses	26,136	26,136
Total Expenses	$1,745,700	$1,745,700
Net 2008 Over-collection	**$ 598,528**	**598,509**

Verification of EE Funding Sources

System Benefit Charge (SBC)

According to the UES tariff, usage for kWh is billed as required using the full SBC of $.003. (Total increased to $.0033 October 2008)

The total kWh sales for the year, on which the $.0018 SBC was billed, were 1,224,893,118. UES kWh sales were verified to the Capital and Seacoast division's monthly billing reports "Electric Service Revenues and Purchased Power-Current Year All Customers". Excluded from the SBC charge are "company use" kWh, and "sales for resale" as appropriate. SBC collected was $2,204,890.

The UES SBC was also verified monthly to the billing system and the integrated general ledger revenue accounts. The "model" maintained by the Accounting department at USC provides specific detail regarding the actual billed revenue by rate class, offset with the EE system specific expenses. Each line item in the model is identified with specific general ledger accounts, to which all activity was verified.

The Low Income information, contained in the model used by Accounting, is derived from the actual SBC assessed across all rate classes. 100% of Street Lighting SBC is assigned to the low income model revenue, and Residential and Commercial and Industrial SBC is multiplied by $.00024. The result of that calculation is reflected on the low income revenue model. The determination of the multiplication factor was the result of estimating the beginning balance over-recovery (actual January through July 2007 then estimated August through December 2007), projecting the low income program budget and an immaterial ISO related expense, incentive, and interest for a total revenue stream estimate. kWh sales were those forecast for 2008, and the SBC applied to that. The net dollar resulting from the anticipated costs for the low income program were divided into the Residential and Commercial/Industrial kWh, to arrive at the $.00024.

Revenue collected by the SBC was summarized as:

Residential	$ 765,102
Low Income	$ 308,237
Commercial & Industrial	$1,131,551
Street Lighting	$ -0-
Total SBC Revenue	$2,204,890

The model used by the Accounting Department reflected 100% Street Lighting revenue of $16,455 transferred to the Low Income portion of the model. The Residential and Commercial & Industrial revenues noted as net of the transfer of $.00024 applied to the total revenue collected. The Low Income revenue reflects the total of the transferred revenue streams from the Residential sector, Commercial & Industrial sector as well as 100% of the Street Lighting revenue.

Forward Capacity Market

Net income resulting from the Forward Capacity Market (FCM), also known as the Other Demand Resources (ODR) was determined by Commission Order to be used in the CORE programs.

As noted in the NH CORE Energy Efficiency FCM portion of the filing in docket DE 07-106, UES reflected the following actual activity for 2008, while Audit verified the following:

	Reported	Verified
FCM Payments Received from ISO-NE 2007	$36,539	$36,539
FCM Payments Received from ISO Q1 2008	11,382	11,382
FCM Payments Received from ISO Q2 2008	11,518	11,518
FCM Payments Received from ISO Q3 2008	18,426	18,426
FCM Payments Received from ISO Q4 2008	84,729	84,729
Total Payments Received	$162,594	$162,594

	Reported	Verified
FCM Expenses Financial Assurance 2007	3,500	3,500
FCM Expenses Financial Assurance Q4 2008	8,094	8,094
FCM Other Expenses 2007	45,569	45,569
FCM Other Expenses Q1 2008	4,818	4,818
FCM Other Expenses Q2 2008	13,807	8,989
FCM Other Expenses Q3 2008	17,301	3,494
FCM Other Expenses Q4 2008	741	741
Total Expenses	$93,830	$75,205
Net Income (excluding interest)	**$68,764**	**$87,389**

The reported FCM expenses are overstated due to the running totals used in the Commission filing for the second and third quarters of 2008, rather than the individual quarterly activity. 100% of the quarterly Other Expenses were verified to the USC monthly service bill. **Audit Issue #2**

The "model" used by the Accounting Department to monitor the activity within the Forward Capacity Market was verified to the general ledger accounts noted on it without exception. Audit was told that USC was unsure if the activity within the FCM model should have interest applied, and it was for that reason that the activity was maintained on a separate model from that of the energy efficiency activity. Audit informed the Company that the net revenue should be applied to the CORE programs as outlined by Commission Order. The interpretation of the Order indicates that the gross revenue and expenses should be reflected within the CORE programs. Because the Company did not include the FCM activity, the CORE expenses are understated by the audited $75,205 figure above, and the CORE revenue is understated by the audited $162,594 plus $19 interest calculated. **Audit Issue # 1**

Audit requested copies of the reports submitted to the ISO-NE which detail the ODR projects as required. The reports were provided and reflect one project for 2007 which was combined with a new project in October 2008. The initial project was established at the ISO to determine the demand savings of the energy efficiency programs at UES and allowed UES to participate in the transition period of the Forward Capacity Market. The second project registered with the ISO is the project for the transition period. As outlined in a FERC settlement agreement, relative to FERC dockets ER03-563-030 and ER03-563-055, a transitional period beginning on December 1, 2006 through June 1, 2010 was established to provide fixed payments to supplies for installed capacity. The payments per kW per month were specified for the transition period.

Audit requested a sample revenue month for testing to ensure compliance with FERC transition payments. The revenue tested for January 2008 was based on the demand reduction value for December 2007, multiplied by the transmission and distribution and line loss value and by the transition rate. That rate, $3.05 for the month tested, was multiplied by 1,000 to arrive at the megawatt payment. The ISO-NE provides the detail relative to performance hours per month. The Company provided information to the ISO regarding the installed kW savings based on the energy efficiency measures installed for the month. The figure is a running total.

Calculation of Interest

Audit verified the rates used by each utility as well as the computation of the monthly interest to the quarterly prime rate letters sent to utilities by the Director of the Gas/Water Divisions of the NH PUC. UES interest total for 2008 amounted to $13,264 and was included in the EE model used by Accounting as a source of funding.

Accounting did not apply the interest rates to the funds received from the ISO-NE. Audit calculated the interest should have been $19. The amount is immaterial for the year, but the Company is encouraged to document the process to ensure accuracy of funding.

Incremental Expenses

The following lists the incremental expenses funded during year six (2008) of the EE program as *reported by UES*:

	Internal Admin.	External Admin.	Rebates Services	Internal Implmntn	Marketing	Evaluation	TOTAL
Energy Star Homes	$16,548	$22	$116,510	$30,767	$287	$7,922	$172,056
Home Energy Solutions	$10,743	$5	$70,137	$29,099	$2,800	$9,925	$122,709
Energy Star Appliances	$7,887	$1,870	$80,294	$16,020	$ -0-	$3,187	$109,258
Home Energy Assistance	$19,603	$665	$216,410	$50,049	$218	$11,922	$298,867
Energy Star Lighting	$12,914	$2,430	$68,128	$39,789	$3,526	$7,560	$134,347
Residential Home Energy Suite-UES	$ -0-	$2,376	$21,384	$ -0-	$ -0-	$ -0-	$23,760
Total RESIDENTIAL	**$67,695**	**$7,368**	**$572,863**	**$165,724**	**$6,831**	**$40,516**	**$860,997**
Large C&I New Equip & Construction	$10,213	$2,126	$67,998	$13,869	$577	$8,636	$103,419
Large C&I Retrofit	$21,094	$-0-	$178,087	$75,272	$577	$16,381	$291,411
Small Business EnergySolution	$23,035	$24	$201,631	$62,032	$732	$10,632	$298,086
Company Specific	$ -0-	$1,404	$18,636	$ -0-	$-0-	$-0-	$20,040
Total C&I	**$54,342**	**$3,554**	**$466,352**	**$151,173**	**$1,886**	**$35,649**	**$712,956**
TOTAL UES	**$122,037**	**$10,922**	**$1,039,215**	**$316,897**	**$8,717**	**$76,165**	**$1,573,957**

The following lists the incremental expenses funded during year six (2008) of the EE program *as supported by the documentation provided to PUC Audit*:

	Internal Admin.	**External Admin.**	**Rebates Services**	**Internal Implmntn**	**Marketing**	**Evaluation**	**TOTAL**
Energy Star Homes # 47	$16,499	$22	$116,510	$30,330	$774	$7,922	$172,056
Home Energy Solutions #26	$10,729	$5	$65,140	$29,805	$2,943	$9,091	$117,709
Energy Star Appliances #40	$7,878	$1,870	$80,294	$15,943	$84	$3,187	$109,258
Home Energy Assistance #41	$19,555	$665	$216,410	$49,612	$704	$11,922	$298,867
Energy Star Lighting #28	$12,897	$2,042	$64,637	$39,634	$7,577	$7,560	$134,347
Residential Home Energy Suite #48-00	$ -0-	$2,376	$21,384	$ -0-	$ -0-	$ -0-	$23,760
Residential Geothermal #26-42	$ -0-	$ -0-	$5,000	$ -0-	$ -0-	$ -0-	$5,000
Total RESIDENTIAL	**$67,558**	**$6,980**	**$569,375**	**$165,324**	**$12,082**	**$39,682**	**$860,997**
Large C&I New #32	$270	$-0-	$45,512	$8,467	$57	$-0-	$54,307
Large C&I New #33	$10,339	$-0-	$20,360	$8,971	$806	$8,636	$49,112
Large C&I Retrofit #51	$566	$-0-	$21,308	$22,466	$172	$-0-	$44,512
Large C&I Retrofit #52	$20,965	$-0-	$156,780	$51,596	$1,178	$16,381	$246,900
SmallC&IEnergy Solution #31	$22,992	$24	$201,631	$61,646	$1,161	$10,632	$298,086
Company Specific #48-02	$ -0-	$1,404	$12,636	$ -0-	$-0-	$-0-	$14,040
Company Specific #53-10	$ -0-	$ -0-	$ -0-	$1,000	$ -0-	$ -0-	$1,000
Company Specific #53-12	$ -0-	$ -0-	$ -0-	$5,000	$ -0-	$ -0-	$5,000
Total C&I	**$55,132**	**$1,428**	**$458,227**	**$159,146**	**$3,374**	**$35,649**	**$712,956**
TOTAL UES	**$122,690**	**$8,408**	**$1,027,602**	**$324,470**	**$15,456**	**$75,331**	**$1,573,957**

The total verified expenses, excluding ISO-NE related expenses were $1,573,957 as reported to the Commission in docket DE 07-106. The allocation among the expense types shifted primarily due to the miscoding of certain printing costs as Administration expenses rather than Marketing expenses. The #xx noted within each program type is the general ledger sub-account identification.

HES Program represents the Home Energy Solutions existing residential home program. $5,000 of the Rebates relates to Geothermal and should be listed as a Company Specific program. Budget for 2008 was $166,500. The reported actual expenses of $122,710 represent 74% of the budget for the year. Had the Geothermal rebate program been noted under the Company Specific portion, rather than HES program, the budget would have been $156,500 with actual of $117,710 or 75%.

Allocation of Expenses:

Audit requested the specifics of how the CORE activity costs were allocated among the efficiency programs as well as by the activities within each program. For each program summarized in the grids above, there were thirteen specific general ledger accounts to which expenses were posted. The HES portion contained fourteen accounts, as the additional account for the Geothermal Rebate was included there. The Company specific portion reflected four specific accounts. In total, Audit reviewed the activity within 135 general ledger accounts.

The allocation method for every program type was noted to be:

- Internal Design – 100% allocated to Internal Administration
- 3rd Party Design – 100% allocated to External Administration
- Program Administration – allocation split with 10% to Internal Administration and 90% to Internal Implementation
- Engineering Services – 100% allocated to Internal Implementation
- Administrative Materials – 100% allocated to Internal Implementation
- Regulatory and General – for the HES Program, these costs are allocated 50% to Internal Administration and 50% to Internal Implementation; for the Energy Star Lighting program and Low Income program, the costs are allocated 55% to Internal Administration and 45% to Internal Implementation; for the remainder of the programs, the costs are allocated 65% to Internal Administration and 35% to Internal Implementation
- 3rd Party Administration – allocated 10% to External Administration, 90% Rebates
- Marketing and 3rd Party Marketing account types are allocated 100% to Marketing
- Monitoring and Evaluation, and 3rd Party Monitoring and Evaluation are allocated 100% to Evaluation
- Rebates and Energy Audits are allocated 100% to Rebates and Services

Inter-company Billing from Unitil Service Corp.

Audit verified 100% of the intercompany billings from USC to UES for the year 2008. A total of $236,484 was billed for indirect costs through the allocation of job orders, to reflect the labor, benefits, and overhead of the six employees of the Demand

Side Management division of USC. The total indirect costs were allocated among eight program types and three general ledger accounts each, and then also among the Internal Administration, Internal Implementation, and Evaluation categories. The indirect costs result from the six employees of the division working on DSM related items, but not specifically on a distinct program.

Direct intercompany billing costs which were attributable to specific programs reflect employee labor, benefits, and overhead and for 2008 amounted to $221,412. The total was allocated among twelve general ledger accounts as distributed among ten UES specific program types. Overhead and benefits were calculated at 100% of labor costs.

Legal Invoices

Two invoices from an external legal firm, totaling $19,800 were reviewed. Both invoices related to work performed relative to docket DE 07-106. The invoices were allocated among ten specific program types, and between Internal Administration and Internal Implementation.

Community Action Agencies' (CAAs) Contract Costs

Copies of contracts between UES and Rockingham Community Action agency, and UES and Belknap-Merrimack Community Action were provided for review. UES contracted with the CAAs to provide service to the low income eligible customers.

Audit requested and was provided with a pricing sheet for 2008 which outlined the specific administrative costs, as well as a cost per fixture or service that would be provided. This pricing sheet was noted as Attachment A within the contract, although was not attached to the contract.

The total product costs for which the CAAs invoiced UES amounted to $118,098, with CAA administrative charges of $16,139, or 12% of the total paid to the CAAs.

The CAA costs are noted within the Low Income section of the filing, and were allocated primarily to Customer Rebates and Services.

Documentation Review

Audit reviewed the 135 general ledger sub-accounts used by UES for the accounting of expenses associated with the CORE Energy Efficiency program, and selected several items from each for review. As outlined above, 100% of all intercompany invoices were reviewed as were 100% of the external legal invoices.

The specific invoiced items tested related to rebates, services, as well as PUC invoices for GDS Associates. The total amounted to $476,899, and includes the legal invoices above. The total dollar amount of the specific items *and* intercompany billings amounted to $943,008, or 60% of the total expense figure reported.

For each item reviewed, Audit verified the rebate figure to the CORE filing to ensure the percentage reimbursed was in compliance with the program, and that the posting to the general ledger was accurate. Finally, the allocation among the categories was reviewed for reasonableness.

<u>Rebates/Services</u>

Through discussion, Audit learned that **Unitil** has **no annual incentive caps for rebates** on Small Business or Large Business, Commercial or Industrial (C&I) retrofits or new construction.

A review of rebates/services charges posted to the financial accounts of Unitil for Core New Hampshire Energy Efficiency Programs include the following:

<u>Energy Star Homes, Cust/Contr Rebates/Services, code #47; $116,510.</u>

Audit reviewed a rebate payment of $65,725 for a 42 unit complex. Support showed the rebates were for appliances, lighting, shell and CFL bulbs.

Also reviewed was an invoice payment to ES Homes for services of energy audits that included a final inspection fee of $3,075 for the above mult-unit complex. Total home energy audit fees for this program were $23,615 and are included in the above code #47 amount.

<u>Home Energy Solutions Res Retro, Rebates/Services, code #26; $65,140</u>

Audit reviewed two invoices totaling $37,838 provided to a multi-unit complex. One invoice was for 50% of the total cost and was paid at the start of the job. The other invoice was paid at the completion and was the remaining balance due. The rebates were for bulbs, air sealing, insulation, thermostats and included vendor fees of $4,410.

Audit also reviewed two invoices for energy audits. Total energy audit service fees were $6,252 for this program and are included in the above code #26 amount.

<u>Energy Star Appliances, Rebates/Services, code 40; $80,294</u>

Many voucher payments for appliance rebates were posted. In addition, third party administration fees totaled $16,834 and are included in the above total.

<u>Home Energy Assistance, Cust/Contr Rebates/Services, code #41; $216,410</u>

Audit reviewed a payment for an elderly housing complex. There were 50 units that received a rebate of $1,352 each along with CAA administrative fees of $154 for each unit. Also included were payments to the CAAs for weatherization and to Barons Appliance.

Energy Audit fees paid to the CAAs for this program totaled $23,758 and are included in the above code #41 total.

Energy Star Lighting, Cust/Contr Rebates/Services, code #28; $64,637

Many voucher payments for lighting rebates were posted. In addition, third party administration totaled $18,379.

Residential Home Energy Suite, Cust/Contr Rebates/Services, code #48-00, EE Website; $21,384

The only posting was a payment for Home Energy Suite Subscription. The supporting invoice was for licensing online energy software services for one year, from Apogee Interactive Inc. The software provides a simplified customer-friendly energy audit as well as educational information. The invoice total amount was allocated at 72% to Unitil Energy Service and 28% to Fitchburg Gas & Electric.

Residential Geothermal, code #26-42; $5,000

Costs of $5,000 were included within the Home Energy Solutions category, but would be more appropriately denoted as company specific. The cost related to one rebate.

Large C&I New Construction (G2) Rebates/Services, code #32; $45,512

Audit's review included a rebate payment of $23,500 to a local school district for a project that cost $85,000. The support for this project indicated that construction was for Small Business Retrofit Program; however the Company states that this was in error. Per the Company, the school is a G2 customer with average demand greater than 100 kW and that the lighting project was *part of a major renovation, thus classified as new construction.*

Large C&I New Construction (G1) Rebates/Services, code #33; $20,360

Audit reviewed a payment of $17,000. Support showed that the rebate was for an NE&C chiller (air conditioning system). The customer was verified as G1.

Large C&I Retro (G2) Cust/Contr Rebates/Services, code #51; $21,308

Audit's review included a payment of $3,994 to a local school for electrical work. The rebate was calculated at *50%* of total cost. Audit's reading of the Energy Efficiency Programs was that the Large C&I Retro program offers prescriptive and custom rebates designed to cover the lesser of one year payback or **35%** of equipment and installation costs up to the customer's incentive cap. When questioned, the Company responded that this school is a general service customer with demand less than 200kW and would normally have participated in UES' Small C&I Retrofit Program and been assigned to a Company contractor. *"However, the customer worked with their own vendor to design and <u>install a custom lighting project which included products not available</u> for prescriptive rebates <u>through the Small C&I Retrofit Program</u>. As has been the practice with these types of projects, it was completed under the Large C&I Retrofit Program, which allows for customized rebates based on the costs and benefit of a project*".

Audit reviewed another rebate payment of $8,905 which posted to the above program. The rebate was approximately 47% of the project costs. Company support showed this was a prescriptive rebate. The rebate was calculated based on the prices of the installed measures available to the Company.

Energy Audit fees of $3,059 were also included in the above code #51 total.

<u>Large C&I Retro (G1) Cust/Contr Rebates/Services, code #52; $156,780</u>

Audit's review included a payment to a local school district for a custom rebate of $42,680 for lighting, VFDs and motors. There was also a rebate posting of $32,940 paid to a private school. Audit also verified that customer was G1.

<u>Small C&I (G2) Cust/Contr Rebates/Services, code #31; $201,631</u>

Audit's review included a payment of $25,851 to a local realty company, calculated at 50% of measure's cost. Audit noted that this program pays 50% of the installed costs up to the customer's incentive cap.

Energy Audit fees included in the above project code total $3,811.

<u>Company Specific #48-02 Rebates/Services, code #48-02; $12,636</u>

The only charge was a payment for an annual subscription. Support showed the invoice for EE website software services from Apogee Interactive Inc. with the amount allocated 72% to Unitil Energy Service and 28% to Fitchburg Gas & Electric.

<u>Total Rebates/Services</u>

Total actual costs reported as Rebates/Services for the Unitil Core Energy Efficiency Programs for 2008 were <u>**$1,027,599.**</u> No Audit exceptions were noted.

Company Specific Internal Implementation Costs

C&I #53-10 represents education and participation in an energy conference of the NH Sustainable Energy Association. An invoice for $1,000 was provided to support the cost.

C&I #53-12, K-12 Education, cost of $5,000 was supported with an invoice relating to the STEM program, provided by the Wilson Educational Services.

Monitoring and Evaluation

Staff at the PUC are responsible for monitoring and evaluating the energy efficiency programs, in conjunction with the utilities, according to the Order issued for program year 2007. UES noted $75,331 in total Monitoring and Evaluation costs, allocated among the EE programs. $28,387 representing 38% of the total Monitoring and Evaluation figure was verified to invoices from the PUC Business Office for services provided by GDS Associates. 58%, or $43,649 was verified to the indirect portion of the inter-company billing. 4% or $3,013 was verified to direct intercompany billing.

Printing Invoices

Several printing invoices were reviewed and were reasonable expenses for the CORE program, but were miscoded to Administration rather than Marketing. Refer to the Audited grid above for the re-alignment of those costs and the resulting change in the category totals. The total expense for the year, as reviewed, remains the same as that reported by UES.

Balance Sheet Reconciliation

Audit reviewed the balance sheet reconciliation of the general ledger account(s) used to record the ongoing activity of the EE. Primarily UES uses account 173 as the tracking account for the activity related to the accrued revenue. The models used by Accounting reflect the revenue activity to each of the 440 accounts and expenses to each of the 908 sub accounts, as well as the rolling accrued revenue.

Balances at year end 2008 were:

10-20-00-00-173-13-01-Residential	($177,238)
10-20-00-00-173-13-02-Low Income	($ 48,270)
10-20-00-00-173-13-03-Comm/Indust	65,539
10-20-00-00-173-13-05-Lighting	-0-
10-20-00-00-173-41-00-FCM ODR	($ 87,390)
Net Balance Sheet Account 173	($247,359)

Audit Issue #1

Budget and Incentive Calculation

Background

Utilities are authorized to earn an incentive, based among other ratios, on the budget for the year at 8%. Specific CORE programs, including the participation in the forward capacity market, were detailed in Commission Order No. 24,815

Issue

The budget on which the 2008 incentive calculation was based summed to $1,820,090 (per the detail in DE 07-106, page 78). The budget correctly included $42,050 in ISO-NE expenses associated with the Forward Capacity Market

None of the FCM expenses were included in the CORE EE program expenses, thus understating both the revenue and expenses for the 2008 CORE programs by $162,594 and $75,205 respectively.

Recommendation

To comply with the Commission Order #24,815, it is recommended that UES review the types of expenses associated with the CORE program and participation in the FCM, and reflect those FCM expenses in the most reasonable program category. The revenue and related interest calculation should be included with the CORE programs as well.

Company Comment

UES agrees with the Audit Staff's finding. The Company's Energy Efficiency and Accounting groups will work together to combine the Energy Efficiency and FCM reconciliation models so that internal documentation of the programs include all expenses, including FCM, associated with UES' CORE energy efficiency programs. In addition, the Company will also true up the reconciliation model to account for the FCM interest that was noted by the Audit Staff.

PUC Audit Comment

Audit concurs with the Company comment understands the comment to include FCM revenues and expenses.

Audit Issue #2

Reported Forward Capacity Market Expenses

Background

Each of the utilities provides detail for each quarter's activity regarding revenue received from ISO-New England, as well as expenses associated with quarterly activity for the Forward Capacity Market. The activity was summarized in the filing DE 07-106 on schedule NH CORE Energy Efficiency FCM Budget (January 1 – December 1, 2008)

Issue

The expenses reported for UES Quarter 2 2008 and Quarter 3 2008 reflected $13,807 and $17,301 respectively. These figures however represent the entire year to date through the second and third quarters respectively, rather than the individual quarter's activity.

The expense for Quarter 2 should have been $8,989 and for Quarter 3 should have been $3,494. As a result, the reported Total FCM Expenses of $93,830 are overstated by $18,625 and the resulting Net Income of $68,764 is understated by the same $18,625. Net Income for UES FCM activity should have reflected $87,389.

Recommendation

Audit recommended and the Company agreed that the information appeared to be a summary of year to date activity rather than the quarterly activity and would adjust the input accordingly. The issue is a reporting error on the part of UES.

Audit recognizes that the Accounting model used by UES for posting to the general ledger reflected the correct income, expenses and net activity for the period, and thus no accounting entry adjustment is recommended.

Company Comment

UES agrees with the Audit Staff's finding. The Accounting Department will develop a quarterly report to provide the Energy Efficiency group with incremental FCM revenue received from ISO-NE. This report will be compared to the internal report currently generated by the Company's energy efficiency tracking system and used for reporting to the NH PUC. This additional quality control measure will help to prevent future inaccuracies.

PUC Audit Comment

Audit concurs with the Company comment.