

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 5, 2009

AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner

SUBJECT: CORE Energy Programs – National Grid, d/b/a
Granite State Electric Systems, Inc.
Final Audit Report - DE 07-106

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 of National Grid, d/b/a Granite State Electric Systems, Inc.(GSE), 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's contacts were Angela Li, Lisa Mogera, Craig Sullivan, Limarys Heredia, Jose Songco, Brian Kearney, Bob Bowcock, Jean Mangini and Scott McCabe. Eleven Audit Requests were sent to various Company contacts on 8/18/09. Although four were answered in a timely manner, seven of them were not received here at the PUC until on or after 10/5/09.

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 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) 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 \$1,774,120 (per the detail in DE 07-106, CORE filing page 80). The Company reported no utility specific programs.

The 8% calculated incentive was \$141,930, based on the budget as filed of \$1,774,120. GSE posts an incremental portion of the shareholder incentive each year. Specifically, Audit reviewed the activity which took place during the test year 2008 and noted the following:

2006 SHI posted during 2008	\$ 36,830
2007 SHI posted during 2008	\$ 48,485
2008 SHI posted during 2008	<u>\$137,968</u>
Total 2008 SHI posting	\$223,283

Shareholder incentive entries noted were:

Debits to 242300

Credits to 451010

The 2007 SHI has \$14,050 remaining to be recovered and the 2008 SHI, while less than the 8% of budget noted in the paragraph above, represents 70% of an adjusted

SHI for 2008 of \$197,097. The calculation for the December entry was made in January 2009, prior to submitting to the Commission, for review and approval, the “true-up” for program year 2008. The 2008 true-up was mailed on June 17, 2009 to the NHPUC Executive Director. Audit questioned the Company regarding the use of a separate general ledger account to record the debit portion of the shareholder incentive entry (use of 242, rather than 232 for core expenses), and was told (response to audit request #16) that the shareholder incentive is posted to account 242300 in order to “track it separately from the energy efficiency expenses”. **Audit Issue #1**

Summary of 2008 Activity as Reported and Noted per General Ledger

	Reported	GL Detail provided 10/23/09
Total SBC Revenue	\$1,600,203	\$1,600,203
Total Interest	23,290	22,220
Subtotal SBC revenue	\$1,623,493	\$1,622,423
 Total FCM Revenue	 67,573	 62,284
Total Funding	\$1,691,066	\$1,684,707
 Total Energy Efficiency Expenses	 \$1,474,858	 \$1,392,378
Incentive	137,968	224,279
Subtotal EE expenses	\$1,612,826	\$1,616,657
 Total FCM Expenses	 4,738	 5,118
Total Expenses	\$1,617,564	\$1,621,775
 Net <u>2008</u> Over-collection	 \$ 73,502	 \$ 62,932

Verification of EE Funding Sources
System Benefit Charge (SBC)

According to the GSE 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 889,001,552. GSE kWh sales and corresponding SBC revenues were verified to the monthly billing system reports, CR9799A. Total SBC revenue was noted as a credit entry to account 232-455.

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.

The Company reported quarterly revenue in 2008 which summed to \$67,573 and associated quarterly 2008 expenses of \$4,738. As noted, these figures do not agree with the information provided to the Commission.

On August 18, 2009 Audit requested clarification of the variance between the “Table 5” filing provided by Robert Bowcock to the NH PUC for 2008 EE activity which reflected total revenue of \$1,680,077. The SBC revenue of \$1,600,203 was \$79,874 less than that on Mr. Bowcock’s filing. The response, dated October 5, 2009, to the variance question was that the *“information submitted to the Commission in June \$1,680,077 to be the additional IS Settlement of \$84,992 booked as revenue through Reg Acc 451010 and the deduction of ISO FCM expense of \$5,118 booked through Reg Acc 908000 activity AGO209”* Neither the revenue nor expense totals identified in the response agree with the information noted in the New Hampshire Core Energy Efficiency Programs FCM Budget (actual) for January 1 – December 31, 2008. **Audit Issue #1**

GSE responded on July 22, 2009 to the Initial Audit letter sent by the Chief Auditor for specific items to be made available during the audit. Specifically, requested item number 14 related to support for the Forward Capacity Market expenses of \$14,267 shown as 2007 and \$1,417 shown as Q4 2008, as well as support for payments from the ISO-NE for 2007 \$30,699 and Q4 2008 of \$30,905. The specific response to this item request was “Pending”. The requested documentation was not provided.

On October 6, 2009, the monthly spreadsheets issued to the ISO were provided for review. The sheets reflect the kWh savings.

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 GSE uses account 232-455 as the tracking account for the activity related only to the specific Energy Efficiency programs. The balance at year end 2008 was (\$826,586) with an adjusting entry for interest during the year of \$9,390. The net result of (\$817,196) represents an over-collection of SBC and other funding.

Audit was able to perform an ongoing activity estimated balance based on general ledger detail provided on October 23, 2009, after repeated requests for supporting information relative to the revenue and expenses of the forward capacity (also referenced as the Other Demand Resources ODR), and Shareholder Incentives.

Specifically:

Beginning Balance <u>Energy Efficiency Regulatory Account 232455</u>	(\$ 587,151)
SBC Revenue credited to 232455(offset to account 232451)	(1,600,203)
EE Expenses debited to 232455 (offset to account 908000)	1,392,378
Interest credited to 232455 (offset to 431000)	<u>(22,220)</u>
Subtotal of Regulatory Account 232455	(817,196)

Beginning Balance <u>DSM Incentives Regulatory Account 242300</u>	\$460,525
Shareholder Incentives debited 242300 (offset 451010)	<u>224,279</u>
Subtotal of Regulatory Account 242300	684,804

Beginning Balance ISO FCM Revenue 451010/451050	(\$28,700)
2008 ISO FCM Revenue credit 451010 offset 565 Audit Issue	(62,284)
2008 FCM Expenses debit 908000 credit 184118, 242200, 242204, 163010	5,118
Net ISO FCM Activity	(\$85,866)

Therefore, the ongoing EE related activity inclusive of all accounts: (\$218,258)
This represents an over-collection of funds (or under-utilization of available funds)

Schedule H was prepared in early January 2009. At the final close of the 2008 Energy Efficiency year, in mid 2009, after adjustments, the EE Expense total which agrees with the Pivot Tables was \$1,477,476. However, the General Ledger does not support the adjusted Pivot Table information. **Audit Issue #1**

Incremental Expenses

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

	Internal Admin.	External Admin.	Rebates Services	Internal Implmntn	Marketing	Evaluation	TOTAL
Energy Star Homes	\$2,691	\$17,353	\$291,382	\$1,763	\$-0-	\$338	\$313,528
Home Energy Solutions	\$388	\$3,584	\$41,680	\$11,336	\$-0-	\$147	\$57,135
Energy Star Appliances	\$458	\$2,952	\$49,503	\$8,485	\$444	\$25	\$61,867
Home Energy Assistance	\$1,049	\$6,766	\$113,556	\$81	\$-0-	\$90	\$121,542
Energy Star Lighting	\$398	\$2,567	\$40,433	\$9,738	\$6,052	\$2,645	\$61,834
Total RESIDENTIAL	\$4,984	\$33,222	\$536,554	\$31,403	\$6,496	\$3,245	\$615,906
New Equip & Construction	\$1,342	\$22,349	\$160,003	\$57,459	\$266	\$14,794	\$256,215
Large C&I Retrofit	\$1,777	\$24,052	\$218,447	\$61,748	\$-0-	\$11,974	\$317,997
Small Business EnergySolution	\$1,318	(\$18,619)	\$291,689	\$8,005	\$-0-	\$2,346	\$284,740
Total C&I	\$4,437	\$27,782	\$670,139	\$127,212	\$266	\$29,114	\$858,952
TOTAL GSE	\$9,421	\$61,004	\$1,206,693	\$158,615	\$6,762	\$32,359	\$1,474,858

The grid above is a replication of the information provided to the PUC in “Schedule H” of actual expenses for program year 2008.

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
ES Homes X00010	\$3,266	\$17,430	\$291,270	\$1,763	\$-0-	\$304	\$314,033
ES Air Cond. X00002	\$-0-	\$-0-	\$15	\$-0-	\$-0-	\$35	\$50
ES Heating X02780	\$-0-	\$-0-	\$97	\$-0-	\$-0-	\$-0-	\$97
Total ES Homes	\$3,266	\$17,430	\$291,382	\$1,763	\$-0-	\$339	\$314,180
Mrkt Research X00081	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$147	\$147
NEEP X02782	\$-0-	\$1,083	\$-0-	\$-0-	\$-0-	\$-0-	\$1,083
Energy Wise X00008	\$471	\$2,512	\$41,680	\$11,337	\$-0-	\$-0-	\$56,000
Total Home Energy Solution	\$471	\$3,595	\$41,680	\$11,337	\$-0-	\$147	\$57,230
Energy Star Products X00007	\$556	\$2,965	\$49,503	\$8,485	\$444	\$25	\$61,978
Appliance Mgmt Program X00006	\$1,273	\$6,795	\$113,556	\$81	\$-0-	\$90	\$121,795
Residential Lighting X00003	\$483	\$2,579	\$40,433	\$9,738	\$6,052	\$2,645	\$61,930
Total RESIDENTIAL	\$6,049	\$33,364	\$536,554	\$31,404	\$6,496	\$3,246	\$617,113
Design 2000plus X00011	\$1,695	\$23,088	\$159,407	\$56,405	\$266 Aud. I. #2	\$10,708	\$251,569
NEEP X00021	\$-0-	\$321	\$-0-	\$-0-	\$-0-	\$-0-	\$321
DesignLights X00025	\$-0-	\$10	\$-0-	\$71	\$-0-	\$-0-	\$81
C&I MrktRsrch & Eval.X00082	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$4,086	\$4,086
Motorsup X02783	\$1	\$8	\$160	\$-0-	\$-0-	\$-0-	\$169
Cool Choice X02784	\$4	\$22	\$437	\$-0-	\$-0-	\$-0-	\$463
Total C&I New	\$1,700	\$23,449	\$160,004	\$56,476	\$266	\$14,794	\$256,689

	Internal Admin.	External Admin.	Rebates Services	Internal Implmntn	Marketing	Evaluation	TOTAL
Energy Initiative X00012	\$2,248	\$24,359	\$218,447	\$58,425	\$-0-	\$7,550	\$311,029
Load Response Program X00016	\$1	\$112	\$-0-	\$2,353	\$-0-	\$-0-	\$2,466
O&M DSM Program X00018	\$1	\$144	\$-0-	\$-0-	\$-0-	\$20	\$165
NEEP X00021	\$-0-	\$398	\$-0-	\$-0-	\$-0-	\$-0-	\$398
C&I MrktRsrch & Eval.X00082	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$4,424	\$4,424
EnergyStar Cmmrci Bldg X03722	\$-0-	\$8	\$-0-	\$-0-	\$-0-	\$-0-	\$8
DstrbtdRsrchs X00017	\$-0-	\$-0-	\$-0-	\$43	\$-0-	\$-0-	\$43
Total C&I Retrofit	\$2,250	\$25,021	\$218,447	\$60,821	\$-0-	\$11,994	\$318,533
Small C&I X00013	\$1,672	(\$18,332)	\$291,689	\$7,400	\$-0-	\$1,444	\$283,873
							Aud. I. #3
NEEP X00021	\$-0-	\$364	\$-0-	\$-0-	\$-0-	\$-0-	\$364
C&I MrktRsrch & Eval.X00082	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$902	\$902
Total Small Bus.	\$1,672	(\$17,968)	\$291,689	\$7,400	\$-0-	\$2,346	\$285,139
Total C&I	\$5,622	\$30,502	\$670,140	\$124,697	\$266	\$29,134	\$860,361
TOTAL Res. & C&I Combined	\$11,671	\$63,866	\$1,206,694	\$156,101	\$6,762	\$32,360	\$1,477,474

Allocation of Expenses:

Audit reviewed the allocation of Project code X00021, the Northeast Energy Efficiency Partnership, which for 2008 totaled \$1,083. This cost was allocated to External Administration among the commercial Core programs in the following manner:

Large C&I New	\$321	30% of total
Large C&I Retrofit	\$398	37% of total
Small Business	\$364	33% of total

In addition, Project code X00082, C&I Market Research and Evaluation, totaled \$9,412 and was allocated to Evaluation among the commercial Core programs in the following manner:

Large C&I New	\$4,086	43.4% of total
Large C&I Retrofit	\$4,424	47.0% of total
Small Business	\$ 902	9.6% of total

Rebates and Services

GSE charges for Rebates & Services were approximately 82% of the company's total reported core program costs. The following listing, by program, with the GSE assigned Project codes and actual costs, were reported as Rebates & Services. Audit reviewed support for many of the charges.

Energy Star Homes, \$291,382

Energy Star Homes, Project code X00010 \$291,27

Energy Star Air Conditioning, Project code X00002 \$15

Energy Star Heating, Project code X02780 \$97

Audit noted many invoices from the Conservation Services Group were charged to Project X00010, Energy Star Homes and are shown as Rebates and Services. Their invoices describe service as Program Administration, Market Rate and other charges. For the year Conservation Services Group was paid \$24,810 for Program Administration and \$78,035 for Market Rate and other charges.

DSM single payment vendor invoices were paid for the remaining Energy Star Homes, Rebates and Services costs.

Audit reviewed in detail a November 2008 Conservation Services Group invoice to National Grid-USA for \$19,888. Support for the invoice included services from January through 10/30/08. Audit traced a charge of \$2,000 for Program Administration Core Expenses and charges of \$17,888 for Customer Initiative costs to Rebates and Services.

Audit reviewed support for Project X00010, Energy Star Homes rebates of \$29,550 and \$12,300. Support shows the rebates were paid to a Community housing trust. The incentive payments were for builder shell, mechanical ventilation, appliances and fixtures

Audit reviewed support for another Rebate listed on Project X00010, Energy Star Homes for \$33,400. The rebate was for a large housing village in West Lebanon, NH with wood as the heating source. The rebate consisted of \$21,350 for builder shell, \$7,850 for mechanical ventilation and appliances and \$4,200 for lighting for 42 building units.

Home Energy Solutions

Energy Wise, Project code X00008 \$41,680

All payments charged to Project X00008, were made to Conservation Services Group. Services provided were mainly single family energy audits.

Energy Star Appliances

Energy Star Products, Project code X00007 \$49,503

Audit's review noted that there were many vendor payments. Support by the vendor included multiple appliance rebates.

Low Income Home Energy Assistance

Appliance Management Program, Project code X00006 \$113,556

Support for Project X00006 was provided by GSE. Home energy assistance payments totaling \$88,914 were made to the various New Hampshire Community Action Agencies. Payments to engineering companies for energy audits totaled \$13,690, software services totaled \$6,656 and payroll firm services were \$4,296.

Energy Star Lighting

Residential Lighting, Project code X00003 \$40,433

Many postings for vendor payments for instant coupons were provided by GSE as support for the above. In addition charges totaling \$14,597 were made for NH Outreach.

C&I New Equipment and Construction, \$160,004

C&I New Design 2000 Plus, Project code X00011 \$159,407

MotorsUp, Project code X02783 \$160

Cool Choice, Project code X02784 \$437

Audit noted four individual rebate payments totaling \$85,218 to an engineering company charged to Project X00011. Audit reviewed the largest payment which was for a custom rebate of 10% of a company's final cost to install four all-electric injection molding machines. Other rebates to the above engineering company were for building construction and for motors. (See page 11, for comment on GSE caps)

Audit also noted that there were five rebates totaling \$15,751 paid to a college in the GSE franchise area.

Large C&I Retrofit

C&I Energy Initiative, Project code \$X00012 \$218,447

Audit reviewed an incentive for \$54,920 paid to an installation contractor that was posted to the above Project. The contractor received a prescriptive lighting systems and lighting control incentive that had a final construction cost of \$82,758 before rebate.

A custom rebate for \$19,594 was reviewed. A hotel chain installed automatic controlled guestroom thermostats at a final cost of \$55,246 before rebate. Per the Revised Core Energy Efficiency Programs filing dated 2/29/08 National Grid will pay up to 50% on Custom Retrofit Projects due to current market saturation in its service territory.

Small Business Energy Solutions

Small C&I, Project code X00013 \$291,689

Audit obtained a copy of the National Grid; NHSaves@Work/Small Business Energy Solutions Program advertisement. The form states that financial incentives and technical assistance are provided to business customers with average monthly demand of less than 200 (kw) and that National Grid will pay up to a maximum of 70% of labor and material costs for installation of the energy efficient measures. National Grid will assign a qualified energy contractor that will recommend energy efficient improvements.

Audit reviewed support for four large payments totaling \$156,903 to an engineering company. Each payment to the engineering company was for services to multiple customers. Invoice detail showed the customer, the city, materials cost, labor cost and miscellaneous which included postage, tax, etc. **Audit Issue #3**

Materials used in New Hampshire energy efficiency projects are delivered to the above engineering company's warehouse located in Rhode Island and taxed at the Rhode Island sales tax rate of 7%.

GSE, C&I Annual Incentive Cap

Per written response the Company states C&I New Equipment and New Construction and C&I Retro have a customer cap of **\$400,000**. National Grid customers with less than 200kw are able to select the program that best meets their needs. **The response indicates that the above cap is good for C&I customers with rates G-1, G-2 and G-3.**

Audit did not find any rebates greater than \$54,920 to a single customer of GSE for year 2008.

Company Specific Internal Implementation Costs \$156,101

GSE recorded the internal implementation costs for each of the Project codes through use of an expense group, code A&G, under the heading of PP&A. Audit reviewed the pivot table detail for this code without exception.

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. GSE noted \$32,380 in total Monitoring and Evaluation costs, allocated among the EE programs. Of that, \$31,931 were external costs representing 99% of the total Monitoring and Evaluation figure.

Audit Issue #1 General Ledger

Background

The Energy Efficiency programs across the state are managed by the utilities at the direction of the Commission. The programs include specific programs, utility specific programs, reporting and monitoring, as well as inclusion of certain revenues and expenses as required by Commission Orders. PUC Audit was requested to perform an audit of test year 2008 at each of the utilities.

Issue

GSE records Shareholder Incentive payments as debits to account 242300 with offsetting credits to Revenue account 451010, rather than including the debit with the energy efficiency expenses which post to account 232455.

GSE records Forward Capacity Market revenue to account 451010 with an offset to Regulatory Account Transmission O&M account 565-xxx, therefore never associated with the EE account as required by Commission Order.

GSE records Forward Capacity Market expenses to account 908000 with offsetting credits to an accrual clearing account for employee compensation for future absences, account 184118, current payroll accrual account 242220, accrual for employee incentives account 242204, and service company operating costs account 163010, therefore never associated with the EE account as required by Commission Order.

Recommendation

Procedures must be instituted at National Grid for Granite State Electric to ensure that the flow of dollars into and out of the program complies with the Commission Orders, and that the Company is able to provide the documentation and information requested on a timely basis. While Audit now understands that there are several accounts used to record the activity relating to the entire Energy Efficiency program, the detail provided to Audit does not agree with the information filed in June requesting approval of the 2008 shareholder incentive.

Company Comment

On October 23, 2009, National Grid's accounting department provided the NH PUC Audit staff with an electronic file that identifies the accounts in which activity is recorded. This information will be provided to auditors at the beginning of any future audit. In addition, the Company will identify an internal point of contact for any future audit to facilitate conduct of the audit and the timely provision of information to the Commission's Audit Staff. Regarding the accounting issues raised in Audit Issue #1, the Company will reconcile on a monthly basis balance sheet activity between National Grid's accounting and program and policy departments to prevent the issues that arose in

this audit. The Company has reconciled the 2008 shareholder incentive to within \$10,570, which is documented on the attached spreadsheet.

Summary of 2008 Activity as Reported and Noted per General Ledger

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Incentive	<u>137,968</u>	<u>224,279</u>
Subtotal EE expenses	\$1,612,826	\$1,616,657
Total FCM Expenses	<u>4,738</u>	<u>5,118</u>
Total Expenses	\$1,617,564	\$1,621,775
Net <u>2008</u> Over-collection	\$73,502	\$62,932

Interest

Difference due to the different rates used (Bob uses a monthly Federal Reserve rate where accounting used a Qtrly Interest Rate for Customer Deposit as stated by The PUC). As per Jeanne Lloyd from Regulation and Pricing Department the current rate to use is the one stated by The Federal Reserve. Accounting will make an adjusting entry for the difference.

FCM Revenue

Bob agrees with Accounting - FCM Revenue should be \$62,284 which also agrees with the ISO Statements

EE Expenses

Bob made an adjustment which reduces the expenses to \$1,391,126 the current Variance is \$1,252

Incentive

DSM incentive to be adjusted by Accounting -997. Total DSM Incentive should be \$223,282 which includes 2006 balance of 36,830 and \$48,485 for 2007 remaining balance of \$139,957.

FCM Expenses

Bob Agrees with Accounting - FCM Expenses are \$5,118

PUC Audit Comment

Audit appreciates the forward-looking efforts described in the Company Comment, and encourages the accurate reconciliation and reporting of all information.

Audit Issue #2

Business Publications, Inc.

Background

Project X00011, C&I New Construction contains charges for Business Publications, Inc.

Issue

The response to Audit Request #13 shows the above to be advertising. However the report of incremental costs from the Company only shows \$266 for marketing.

Recommendation

Costs to Business Publications, Inc. for advertising costs should be shown as marketing.

The incremental cost sheet shows project X00011 to be correct in total, however Audit recommends that a reclass be done.

Company Comment

The Company would note that it appears that this Audit Issue #2 is referred to as Audit Issue #3 on page 11 of the Report. The Company is in the process of reclassifying charges from Business Publications, Inc. as marketing charges, as per the recommendation.

PUC Audit Comment

Audit agrees with the Company that Business Publications, Inc. costs of advertising should be shown as marketing.

Audit Issue #3

Small Business Energy Solutions Program

Rebates and Services

Background

Charges reported as Rebates and Services includes the installation of the equipment, materials, labor, taxes and postage.

Issue

Per GSE, charges represent the total project cost. This includes 70% rebate of total project cost and the customers 30% share of the project cost that becomes an interest free loan to be paid over 12 months via the customer's electric bill. This also may include rebate plus any one-time quick pay which could include a 15% discount with National Grid contributing the remainder of total project cost.

Audit's review of the other electric utilities requests for incremental costs indicate that only the rebated amount should be shown. The customers cost or in this case 30% share should remain on the books of GSE. The Energy Efficiency Programs filed with the Commission dated 2/29/08 make no mention of a 15% discount on top of a 70% rebate.

Recommendation

For project X00013, GSE must provide Audit with a schedule showing each customers project cost, GSE rebate, GSE discount, etc. leading to the net amount paid by customer or GSE for 2008. This support will be used by PUC Audit for adjustments to this report for funding for incremental costs not appropriate.

Company Comment

The total dollar amount for the 15% discount to customers was \$7,246.23, which constitutes 15% of the customer contribution. For example, for a \$10,000 project, the customer contribution would be \$3000 (30%) if the customer opted for the 24 monthly installments or \$2,550 (30% X 85% = 25.5%) if they opted for the one time charge on the electric bill. In other words, National Grid contributes 70% of the total project cost if the customer opts for the 24 monthly installments or 74.5% if the customer opts for the one time charge on the electric bill.

Attached is a spreadsheet with the requested information.

PUC Audit Comment

The Company's spreadsheet requested by Audit for Project X00013, Small C&I, shows that the total project costs for year 2008 were \$277,856; Customer Copay Amounts were \$66,171; 15% Discount for "One Time Quick Pay" were \$7,246 and National Grid Contributions were \$211,685.

Audit reviewed the Company's figures as reported for Project X00013, (see page 6, Rebates & Services, \$291,689) and the additional requested information, (see above) and finds that they do not match. Audit contends that the Company has included the full costs of labor, materials, taxes and misc. such as postage, and therefore requested reimbursement for more SBC funds than entitled to. Per the Core Energy Efficiency Programs revised filing, dated 2/29/08, page 24, it states that the program pays National Grid 70% of the installed costs up to the customer's incentive cap. Per the nhsaves@work small business solutions brochure it states *"Through this program, National Grid will pay up to a maximum of 70% of labor and material costs for installation of these energy efficient measures."*

Audit requests that we have continued discovery so as to determine the actual amount of Small C&I expenses that GSE is entitled to recover for year 2008. In addition, further discovery is required to determine if SBC funds need reimbursement for GSE Small C&I program errors made in previous years.