STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DE 09-170

2010 CORE Electric Energy Efficiency Programs

DIRECT TESTIMONY

OF

JAMES J. CUNNINGHAM JR.

November 6, 2009

Q. Please state your name, current position and business address.

A. My name is James J. Cunningham Jr. and I am employed by the New Hampshire Public Utilities Commission (Commission) as a Utility Analyst. My business address is 21 S. Fruit Street, Suite 10, Concord New Hampshire, 03301.

Q. Please summarize your educational and professional background.

A. I am a graduate of Bentley College, Waltham, Massachusetts, and I hold a Bachelor of Science-Accounting Degree. I joined the Commission in 1988. In 1995, I completed the NARUC Annual Regulatory Studies Program and Michigan State University, sponsored by the National Association of Regulatory Utility Commissioners. In 1998 I completed the Depreciation Studies Program sponsored by the Society of Depreciation Professionals and I'm a member of the Society. In 2002, I worked on the Staff team that recommended re-institution of the Commission's natural gas energy efficiency programs. I have reviewed and provided direct testimony on a variety of topics pertaining to New Hampshire electric, natural gas, steam and water utilities. In 2008, I was promoted to my current position of Utility Analyst IV.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to (1) provide a report on the highlights of the 2009 CORE Team activities and (2) provide my recommendations on the proposed 2010 CORE programs.

I. REPORT ON THE HIGHLIGHTS OF THE 2009 CORE TEAM ACTIVITIES

Q. Please describe the decision process used by the CORE Team.

A. The CORE Team uses a "consensus" process in decision making. Consensus means that everyone is at least "willing to live with a decision." If unable to reach consensus, a representative that is unwilling to live with a decision is required to provide an explanation and offer an alternative.

Inputs to the decision process are gathered from various sources including (1) working groups created by the CORE Team to examine complex issues,[1] (2) plant visitations to utility companies to evaluate energy efficiency models[2] and to examine documentation supporting energy efficiency costs and revenues, [3] (3) special sessions of the CORE Team to review matters pertaining to Commission orders and other urgent topics that arise from time to time,[4] (4) quarterly CORE Team meetings to review quarterly performance and (5) informal exchange of e-mails among the parties to clarify issues from time to time.

The Commission is notified of the decisions made by the CORE Team via periodic letters from Staff to the Commission,[5] and via enhancements to CORE filings.[6]

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[1] Authorization to create 2009 working groups comes from the Settlement Agreement approved by the Commission in Order No. 24, 930, page 8. Two working groups were created in 2009: the HEA budget allocation working group and the performance incentive working group.
[2] The working group created to review performance incentives attended a presentation at PSNH that provided an overview of a computer model used to calculate savings and benefit amounts.
[3] Staff participated in plant visitations to each utility to assist the NHPUC auditors in their audit of 2008 CORE programs.
[4] The CORE Team addressed the issue of the fuel neutral HES pilot after which a "Joint Petition for Approval of Amended Design in the Home Energy Solutions Program" was filed on April 9, 2009 and subsequently approved by the Commission in June in its Order No. 24,974.
[5] In 2009, informational letters were filed by Staff pertaining to the 2009 EM&V plan and the fuel neutral HES pilot program.
[6] The 2010 filing was enhanced to include additional information pertaining to capacity and energy benefits and non-electric resource benefits (at p. 69, 74, 79, 84, and additional information pertaining to mapping the GDS report to CORE program offerings (at p. 8, 9, 94-99).

Q. Please provide an overview of the 2009 CORE Team activities.

A. Commission Order No. 24,930 approved the 2009 CORE programs and Commission Order No. 24,974 approved an additional fuel neutral pilot component of the Home Energy Solutions (HES) program. These orders identified a number of activities to be reviewed by the CORE Team. Many of the activities are continuous (i.e. such as periodic review of savings and costs) while others are completed (i.e. requiring no action by the Commission). After each activity I indicate, in parenthesis, the status (i.e. "continuous", "completed, or "requires Commission approval". One activity is not yet finalized (i.e. the Home Energy Assistance (HEA) Budget Allocation\ and Commission guidance is requested. Later in my testimony, I provide a recommendation on this item for Commission consideration (pages 19-24). Following is an overview of the CORE Team activities for 2009.

Budget vs. Actual Analyses (continuous): Staff analyzed the savings and costs of the 2008 CORE programs. On an *overall basis*, actual costs were approximately 5 percent below the 2008 projected costs and kilowatt hour (kWh) savings were approximately 27 percent above budget savings. With respect to *residential programs*, actual costs were 2 percent below budget due mostly to the Home Energy Solutions program and actual kWh savings were 13 percent above projections due mostly to the Energy Star Homes program and the Energy Star Appliances program. With respect to Commercial and Industrial *(C&I) programs*, actual costs were 7 percent below projected levels due mostly to the Small Business Energy Solutions program and kWh savings were 33 percent above projected levels due mostly to the New Equipment and Construction program.

Consideration of New EM&V[7] Ideas (continuous): Staff, after consultation with the utilities, established a 2009 (Evaluation, Measurement and Verification) EM&V plan and filed it with the Commission in February 2009.[8] With respect to 2010 and beyond, the CORE Team discussed the framework of a multi-year EM&V plan along with a 2010 EM&V plan.[9]

Continuing Discussion and Incorporation of the Report Prepared by GDS Associates[10](continuous): The CORE Team continues to evaluate the GDS Report on energy efficiency potential in New Hampshire to incorporate potential energy efficiency ideas into CORE programs going forward. At the September 2009 CORE Team meeting, Public Service Company of New Hampshire (PSNH) reported that the programs planned for 2010 are aligned with the recommendations of the GDS report. For instance, the GDS Report indicates that approximately sixty percent of potential savings pertains to lighting.[11] The 2010 CORE budgets are similarly aligned, with approximately sixty percent of the overall CORE savings attributable to lighting programs.[12]

Consideration of Ideas to Enhance Education and Outreach (continuous): The utilities continue to discuss ideas about education and outreach in the context of customer seminars, point-of sale display, brochures, and catalogs. In 2010, the utilities will be working to provide the necessary training for builders to educate them as to new 2011 Energy Star Homes certification requirements. Also, in response to increasing

[7] Evaluation, Measurement and Verification (EV&M) is defined as a wide range of assessment studies including cost effectiveness as well as measurement and verification (M&V) of energy savings.
[8] Reference Staff Letter to the Commission dated February 2, 2009 in Docket DE 08-120.
[9] Reference CORE Filing at page 46-47 for additional details on the 2010 EM&V plan.
[10] "Additional Opportunities for Energy Efficiency in New Hampshire", January 2009, prepared by GDS Associated, Inc.
[11] Reference GDS Report at page 70-71, Maximum Achievable Cost Effective (M.A.C.E).
[12] Reference CORE filing at page 90: estimated Residential Energy Star Lighting lifetime kWh savings are 90.96 million kWh's, 60 percent of total Residential lifetime kWh savings of 151.71 million kWh's.

efficiency standards for Energy Star labeled clothes washers, the utilities will be working with retailers to ensure accuracy in point of sale labeling and monitoring program cost-effectiveness. [13]

<u>Coordination of CORE and Natural Gas Programs (continuous):</u> Natural gas and electric companies are collaborating by referring customers to each other for participation in their respective programs. This collaboration effort has been successful, resulting in the doubling of participation in PSNH's Home Energy Solutions program, with natural gas customers paying for natural gas measures and electric customers paying for electric measures. Also, natural gas company representatives are participating in the quarterly CORE Team meetings.

<u>NHPUC Financial Audit (completed):</u> The New Hampshire Public Utilities Commission (NHPUC) financial audit focused on the 2008 CORE programs. This audit was a major undertaking, representing the first audit of the CORE Programs since their inception in 2002. Staff participated in the audits, under the direction of Stuart Hodgdon, Chief Auditor, making plant visitations to each electric utility. The audit activity spanned a six-month period, from May 2009 to October 2009. The results of the audit report were provided to the utilities on October 30, 2009. Later in this testimony, I comment on certain several issues identified in the audit report that have an impact on CORE reporting (pages 25-26). Also, see Appendix A for copies of the NHPUC Audit Reports.

<u>2009 Home Energy Solution (HES) Fuel-Neutral Pilot (completed):</u> The Commission directed the CORE Team to review PSNH's revised 2009 HES program

[13] Reference CORE filing at page 13.

budget.[14] The revision was prompted by the Commission's order which specified a significant reduction to PSNH's proposed "fuel-neutral" pilot component (i.e. electric and fossil fuel heating participants). PSNH proposed 617 participants,[15] but the Commission approved a pilot of only 200 participants. Staff did some informal discovery with PSNH in response to the Commission's directive. According to PSNH, it retained the same budget dollars but increased the participation from 200 participants to 1315 participants. PSNH explains that this increase is due to the successful work that it has been doing with 7 auditing companies resulting in a 2009 increase of 285 participants in the HES electric heating only program. Also, PSNH explains that it enrolled an additional 848 customers in this program in 2009 due to the successful collaboration with the natural gas companies. The company notes that the work paid for by PSNH is for electric measures only (i.e. including compact fluorescent lighting (CFL) and lighting fixtures); and the weatherization services and other gas savings measures that are provided by the natural gas companies are paid for by the natural gas companies.[16] Later in my testimony, I will address the company's 2010 proposal which projects 685 participants for this program. In the 2010 CORE filing, this program has been renamed to NH Performance with Energy Star.

Allocation of Forward Capacity Market proceeds (completed): The CORE Team discussed the formula used to allocate ISO-New England Forward Capacity Market (FCM) proceeds to the CORE Residential and C&I programs. The formula is a two-part

[14] Order No. 24,974, page 6.
[15] Source: The total number of fuel neutral participants was 650 (CORE Filing at page 80). This number was adjusted to 617 in the Company's "Joint Petition for Approval of Amended Design in the Home Energy Solutions Program" filed by PSNH and UES on April 9, 2009.
[16] Source: Data Response Staff 1-10 (See Appendix B for a copy).

formula that is based on the average of forecasted kWh sales and estimated demand savings.[17] No changes are recommended by the CORE Team.

Performance Incentive Calculations (completed): A working group was created to review performance incentive calculations. Staff and five other parties participated: a representative from each utility and the Office of Consumer Advocate (OCA). The working group met in a technical session at the offices of PSNH. Consensus was reached on the issues. Specifically, the companies have clarified their calculation of performance incentives such that performance incentives are included in the cost for purposes of calculating the benefit cost ratio; and, the companies agree to include an additional page in the CORE filings going forward to summarize total benefits including: capacity components, energy components and non-electric components.

HEA Budget Allocations (requires Commission approval): A working group was created to review the HEA budget allocation for 2010. Staff and seven other parties participated: the New Hampshire Legal Assistance (NHLA), representing The Way Home (TWH); a representative from the Community Action Agencies (CAA); the Office of Energy Planning (OEP), and; a representative from each of the electric utilities. Two HEA budget allocations were recommended: one by the NHLA and another by Staff. A consensus was not reached. The 2010 CORE proposal is based on NHLA's recommendation, on behalf of The Way Home. Please refer to Appendix C for a copy of this proposal. I will discuss my recommendation later in this testimony (pages 19-24).

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[17] The two part formula for the Residential Sector is 30 percent (i.e. the average of 45 percent kWh sales and 15 percent demand savings). The two part formula for the C&I Sector is 70 percent (i.e. the average of 55 percent kWh sales and 85 percent demand savings).

Multi-year CORE program filings (continuing): The CORE Team discussed the initiative to institute a multi-year CORE filing instead of annual filings. The annual filings are made in September and the procedural schedule is very compressed. A multi-year filing could be filed sooner than September and would allow more time for in-depth review.

II. RECOMMENDATIONS ON THE PROPOSED 2010 CORE BUDGET

Q. Please summarize your testimony and recommendations on the proposed 2010 CORE budget?

A. My testimony pertains to the following:

1. NH Home Performance with Energy Star
2. HEA Low Income Budget Allocation
3. Performance Incentives
4. Other matters

With respect to the NH Home Performance with Energy Star program, I recommend that the Commission not approve the proposed NH Performance with Energy Star program. Instead, I recommend a continuation of the existing 2009 HES electric heating program for another year and a continuation of the existing 2009 fuel neutral Pilot for another year.[18]

[18] Assumptions for calculation performance incentives are the same as approved by the Commission in the existing 2009 fuel neutral pilot.

With respect to the HEA Low Income budget allocation, I recommend that the Commission not approve the proposed 14 percent budget allocation.[19] Instead, I recommend a formula based approach that supports a 13.5 percent budget allocation.

With respect to the actual 2008 performance incentives, I recommend that the Commission approve the amounts provided by the companies for 2008, modified by certain adjustments that I explain later in my testimony; also, I recommend certain procedural changes pertaining to the filing of actual performance incentives including earlier filing dates[20] (pages 24-25)

With respect to other matters, my testimony provides comments pertaining to 2008 performance incentives. In addition, I identify several topics for review by the CORE Team in 2010 including: (1) possible additional reporting requirements stemming from the issues identified in the NHPUC Audit Report[21] (2) caps on rebates for the filings going forward, (3) multi-year CORE filings.

<u>NH Home Performance with Energy Star</u>

Q. What are your reasons for recommending that the Commission <u>not</u> approve the proposed fuel neutral NH Home Performance with Energy Star program?

A. The Commission has the authority to approve a fuel neutral Home Energy Solutions (HES) program.[22] However, to date, the Commission has approved only a Pilot to test the HES fuel neutral concept and is awaiting the Pilot evaluation report. PSNH and

[19] The CORE filing is inconsistent on the percentage used for the HEA budget allocation. Page 35 indicates 14 percent but page 88 indicates 14.9 percent (i.e. $2,870,141 / $19,289,196 = 14.9%)
[20] Adjustments include the issues identified in the NHPUC Audit Report.
[21] Reporting requirements pertaining to a reconciliation of the SBC funding and expenditures.
[22] Reference DE 08-120, Order No. 24,974.

Unitil Energy Systems, Inc. (UES) are now proposing to implement a full-scale fuel neutral HES program in this instant filing, effective January 1, 2010, giving it a new name – i.e. the NH Home Performance with Energy Star program.

Following are my reasons for recommending that the Commission not approve the proposed NH Home Performance with Energy Star.

1. The proposed NH Performance with Energy Star program is not ripe for the Commission review. In 2009, PSNH and UES are continuing to run the electric heating Home Energy Solutions (HES) program which includes a new fuel neutral Pilot component. The HES program is essentially a weatherization program that serves electric heating customers; whereas the Pilot is testing a new fuel neutral component that serves both electric heating as well as fossil fuel heating customers.[23] The Pilot was approved in June 2009 and is not yet completed. Also, the final evaluation report for the Pilot has not yet been filed.

Despite the incomplete Pilot, PSNH and UES are proposing to implement a full-scale fuel neutral program for 2010. The reason given is that "few things are detrimental to a program's infrastructure as starting and stopping delivery.[24] However, I believe it would be detrimental to start a new program before the Pilot and related evaluation has been completed. As of October 19, 2009, there were only 107 participants enrolled in the Pilot. [25]

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[23] Fossil fuel heating includes natural gas, oil, propane, kerosene and wood.
[24] Reference Filing at page 10.
[25] As of October 19, 2009, only 107 participants were enrolled in the program. Reference Data Request Staff 1-1 (see attached Appendix B for a copy).

I believe that the Commission can benefit from the information derived from a continuation of the Pilot through the 2009-2010 winter heating season. Further, I recommend that PSNH serve an additional 200 PSNH participants in 2010 and that UES serve an additional 100 UES participants in 2010. After the 2010 Pilot is completed and the Commission reviews the evaluation report, then the fuel neutral program would be ripe for Commission consideration. The additional year of the Pilot eliminates the concern about starting and stopping the program while providing more data upon which to evaluate the program.

2. The proposed NH Performance with Energy Star program is premature. PSNH and UES indicate in the filing that the market for the existing HES electric heated homes is saturated.[26] However, this program continues to experience excellent participation. For instance, PSNH expects to serve 285 electric heating customers in 2009 (i.e. weatherization, CFL's and lighting fixtures) due to the work the company has been doing with 7 audit companies. This participation is over and above the 200 participants that are expected to be served in the pilot fuel neutral program.[27]

In addition, PSNH expects to serve an additional 848 customers with electric measures (i.e. CFL's and lighting fixtures) (Staff 1-10) due to the collaborative activities between PSNH and the natural gas companies. Again, this participation is over and above the 200 participants that are expected to be served in the Pilot fuel neutral program.[28]

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[26] Reference Filing at page 22.
[27] Reference Data Request Staff 1-10 (attached Appendix___).
[28] Source: Staff 1-10 and the revised budget filed by PSNH on June 30, pursuant to Commission Order No. 24, 974.

PSNH's continuing success in serving electric customers with CFL's and lighting fixtures is confirmed by the GDS report which shows significant remaining potential for such programs. Specifically, the GDS report indicates that approximately 60 percent of the untapped potential savings pertains to lighting. [29]

I believe that, based on the success that PSNH had in 2009 in providing electric energy efficiency service to its customers, PSNH and UES should continue the HES electric heating program for another year.

3. The budget for the NH Performance with Energy Star is overstated for purposes of calculating performance incentives. The filing overstates performance incentives because PSNH and UES have not excluded budgeted utility costs for non-electric benefits.[30] According to the filing at page 80 and 85, PSNH and UES are proposing to calculate performance incentives based on the *combined* electric and non-electric portions of the budget for the NH Performance with Energy Star. This is contrary to the Commission's Order No. 24,974 which states: "we will accept Staff's recommendation that PSNH and UES receive a performance incentive based on the electric-related portions of the fuel neutral HES Pilot budget."

Performance incentives are calculated by multiplying budgeted costs by 8 percent. Since PSNH and UES include non-electric costs in the combined budget, the performance incentive calculations for both companies are overstated. I estimate the amount of the overstatement of performance incentives at approximately $132,000, with PSNH's portion estimated at $116,000 and UES' portion estimated at approximately $16,000.

[29] Source: GDS Report, page 71-72.
[30] Source: Data Request Staff 1-10 (see attached Appendix B for a copy).

See Schedule JJC-1 for a summary of these estimates. Given that the proposed performance incentives are higher than authorized, I believe that there will be an unauthorized transfer from ratepayers to shareholders. This unauthorized transfer occurs since the shareholders would receive performance incentives that would otherwise have gone to ratepayers in the form of energy efficiency programs.[31]

Based on the above, if the Commission were to approve the NH Performance with Energy Star program, I'd recommend that the proposed amount of performance incentives be reduced by $132,000. Going forward, if the Commission were to continue approve the program, I'd recommend that the Commission require PSNH and UES to identify the costs related to the electric and non-electric portions of the program's budget and calculate performance incentives based on the electric-related measures only.

5. The cost per kWh of the proposed NH Performance with Energy Star program is significantly higher than the cost per kWh of other electric programs. The cost per kWh of savings for PSNH's NH Home Performance with Energy Star program is 49 cents per kWh.[32] By comparison, the cost of the Energy Star Lighting program is 1.5 cents per kWh[33] and the cost of the Energy Star Appliances program is 4.3 cents per kWh.[34]

The Cost per kWh of savings for UES' NH Home Performance with Energy Star is 30 cents per kWh.[35] By comparison, the cost of the Energy Star Lighting program is 1.3

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[31] Reference Staff letter to Debra Howland, Executive Director, April 30, 2009. In this letter, Staff calculated that a fuel neutral program for an estimated 500 thousand New Hampshire households would generate a wealth transfer of approximately $93 million.
[32] Based on the Filing at page 78: $1,620,100 divided by 3,298,700 lifetime kWh savings.
[33] Based on the Filing at page 78: $945,000 divided by 63,748,100 lifetime kWh savings.
[34] Based on the Filing at page 78: $630,000 divided by 14,577,400 lifetime kWh savings.
[35] Based on the Filing at page 83: $261,100 (incl. PI) divided by 870,000 lifetime kWh savings.

cents per kWh[36] and the cost of the Energy Star Appliances program is 5.9 cents per kWh.[37]

The significant increase in the cost per kWh spent of the NH Performance with Energy Star is caused mostly by the fact that only 10 percent of the benefits are electric benefits while 90 percent of the benefits are fossil fuel benefits (i.e. oil, natural gas, propane, kerosene, wood).

Based on the significantly higher costs, I'd recommend that PSNH and UES continue to enroll electric customers in the existing HES program, while continuing the fuel neutral Pilot. As noted earlier in my testimony, PSNH's experience in 2009 and the GDS Report indicate an untapped potential for the electric lighting and appliance programs going forward in the context of the existing HES program.

6. Demand savings for the proposed NH Performance with Energy Star are significantly lower than other programs. The demand savings for PSNH's NH Home Performance with Energy Star program are estimated to be 77.9 kW's in the summer of 2010. By comparison, the estimated summer demand savings for the Energy Star Lighting program and the Energy Star Appliance programs are significantly higher in 2010 – i.e. 731.9 kW's and 316.5 kW's respectively.[38]

The estimated kW savings for PSNH's NH Home Performance with Energy Star program are 9.5 kW's in 2010. By comparison, the estimated demand savings for the Energy Star

[36] Based on the Filing at page 83: $254,400 (incl. PI) divided by 18,938,200 lifetime kWh savings.
[37] Based on the Filing at page 83: $249,300 (incl. PI) divided by 4,249,100 lifetime kWh savings.
[38] Source: Filing at page 78.

Lighting program is 212.7 KW's. The summer KW savings for the Energy Star Appliance program is 77.0 KW's.

The significantly lower summer demand savings of the NH Performance with Energy Star corresponds to the relatively minor percentage of the savings that is attributable to electric benefits.

7. The NH Performance with Energy Star program results in less FCM proceeds. The proposed NH Performance with Energy Star is fuel neutral and most of the savings generated is non-electric related savings – i.e. 90 percent for PSNH and 89 percent for UES.[39] Since the non-electric savings component is not counted in the calculation of FCM proceeds, the amount of FCM proceeds that will be received under a fuel neutral program decreases. In 2008 the HES electric heating program generated 12,603,523 kWh's of lifetime savings for PSNH. In 2010, PSNH projected that the kWh lifetime savings for the NH Home Performance with Energy Star filing will be only 3,298,700 kWh's, a reduction of 9,304,823 or 74 percent from 2008.

8. The NH Performance with Energy Star reduces the double benefits historically attributed to energy efficiency programs. The Commission Order No. 20,362 in Docket No. DR 91-128 states: "One consequence of Conservation and Load Management (CL&M) as a resource option is that customers who participate directly in C&LM programs not only share in the system benefits these programs provide, but also benefit directly through their individual participation." The double benefits that always flowed to electric participants and the electric system are reduced significantly in the proposed PSNH and UES Pilots. PSNH's proposed NH Performance with Energy Star

[39] Reference Filing at page 78, 79, 83, 84.

incorporates electric-related savings of only 10 percent of the total benefits.[40] UES's proposed NH Performance with Energy Star incorporates electric-related savings of only 9 percent of the total benefits.[41]

Q. Do you have any other comments about the NH Performance with Energy Star program?

A. Yes. I have the following comments:

1. If the Commission were to authorize PSNH and UES to implement the NH Performance with Energy Star program, I'd recommend that performance incentives be calculated based on the electric related portions of the fuel neutral NH Performance with Energy Star, consistent with Commission Order No. 24,974. In order to make this calculation, I'd recommend that the Commission direct PSNH and UES to segregate the utility costs between the electric vs. non-electric portions in order to calculate limited performance incentives – i.e. based only on the budget related to electric benefits. Such limited performance incentives for shareholders would be reasonable, given the unfavorable impact on electric ratepayers due to reduced double benefits, reduced FCM proceeds, reduced kWh savings and reduced demand savings caused by the fuel neutral NH Performance with Energy Star program.

2. If the Commission were to continue the pilot into 2010, concurrent with the NH Performance with Energy Star, then the programs should be treated as separate programs, with costs, benefits and savings of the Pilot should be segregated from the

[40] Reference Filing at page 78 and 79.
[41] Reference Filing at page 83 and 84.

NH Performance with Energy Star. This will ensure proper evaluation of the Pilot. In addition, costs and benefits for both programs should be further sub-divided into electric versus non-electric categories in order to properly ensure proper calculation of performance incentives according to the Commission Order No. 24,974.

3. If the Commission were to authorize the NH Performance with Energy Star for PSNH and UES, I'd recommend that the NH Performance with Energy Star program be re-labeled as a utility-specific programs rather than a CORE Program. CORE programs are designed to be offered to all customers across the state and represent a coordinated effort by all four electric utilities to offer the same program statewide.[42] The proposed NH Performance with Energy Star program is offered only to PSNH and UES customers and is not a CORE program.

By the same token, the proposed HES program is still being offered to Granite State Electric Company d/b/a National Grid (National Grid) and the New Hampshire Electric Cooperative (NHEC) customers. This is not a state-wide program; yet, National Grid and NHEC are labeling this program as a CORE program – i.e. NH Performance with Energy Star.

If the Commission were to authorize the NH Performance with Energy Star for PSNH and UES, I'd recommend that the filing be clarified by re-labeling both programs as utility-specific programs rather than CORE programs.

4. However, if the Commission were to accept my recommendation to continue the existing HES program for PSNH's and UES' electric customers in 2010 and continue

[42] Reference Filing at page 3: Core programs are a coordinated effort by the four electric utilities to offer the same programs statewide.

the Pilot in 2010, then the HES program could continue to be labeled as a CORE program and the PSNH and UES Pilot could be labeled as a utility-specific program.

HEA Low Income Budget Allocation

Q. Please summarize the proposed HEA budget allocation and your recommendation.

A. The proposed HEA budget allocation is 14 percent. My testimony recommends 13.5 percent.[43]

Q. Please explain why you are not recommending the adoption of the proposed 14 percent HEA budget allocation.

A. The proposed 14.0 percent is an overall estimate that was the result of a discussion among the CORE Team members. It is not supported based on any formula approach; but, rather is based on a negotiated approach among the parties and hence it is not transparent. It is not specifically supportable by Census Bureau data or by other criteria used by the US Department of Energy (DOE) or by the New Hampshire Office of Energy and Planning (OEP). The negotiation process is an annual process and it is a time consuming process. In the final analysis, there is no data or methodology to support the specific budget allocation percentage of 14 percent.

Q. Why do you believe that your formula approach is preferred?

A. My formula approach is an attempt to make the HEA budget allocation more transparent in that it is based on readily available data from the Census Bureau and the DOE. It is less burdensome from an administrative standpoint without sacrificing any accuracy and

[43] There appears to be an inconsistency in the filing. Although the companies are proposing 14 percent (page 35), the calculated percentage is 14.9 percent (page 88: $2,870,141 / $19,289,196).

will save time and effort that would otherwise be spent in negotiation sessions. My formula approach is consistent with Commission orders. Specifically, it is consistent with Commission Order No. 23,574 that directs "that program funds should be allocated to the residential and commercial and industrial sectors in approximate proportion to their contributions to the fund" and that "the low programs should be funded by all customers."[44] My recommendation for the HEA budget allocation is 13.5 percent.

Q. Please state what data and sources are used in your recommended formula approach.

A. My recommended formula approach for the HEA low income budget allocation is based on the (1) utilities' proposed CORE budgets, (2) U.S. Census Bureau data for New Hampshire households and (2) eligibility guidelines prescribed by the DOE as used by the OEP. My recommended formula-approach is easily updated to reflect annual updates published by the U.S. Census Bureau data and revised guidelines published by the DOE as used by the OEP. Also, the formula approach allows the Commission the discretion to adjust the variables in the formula to increase or decrease the budget allocation, as it deems appropriate.

Q Please explain how your recommended formula approach calculates the HEA Budget Allocation.

A. My recommended formula calculates the HEA budget allocation amount for the Residential Sector and the C&I Sector. The Residential Sector is calculated by multiplying the proposed Residential Sector budget by the low income percentage based

[44] Reference Commission Order No. 23,574, at page 6.

on the DOE[45] and U.S. Census Bureau data.[46] The C&I Sector is calculated by multiplying the proposed C&I Sector percentage by the Residential Sector amount. This C&I contribution to fund the HEA programs is made pursuant to Commission requirements.[47] The sum of the Residential and C&I Sector amounts represents the HEA Budget allocation amount.

The HEA budget allocation percent is calculated by dividing the HEA budget allocation amount by the total CORE Budget. See Schedule JJC-2 for a summary of the calculations.

Q. How is the remaining budget split after the HEA budget amount is determined?

A. The remaining budget amount is split between Residential and C&I Sectors based on the split of projected 2010 kWh sales. See Schedule JJC-1 for a summary of the FCM allocations.

Q. How can the Commission use its discretion to adjust your formula approach?

A. The Commission may decide to increase or decrease the HEA budget allocation from the recommended "formula" approach. This could be done by simply changing the Income-To-Poverty ratio in the formula. For instance, the formula approach that I'm

[45] Source: Department of Energy, Weatherization Program Notice 09-5, effective February 18, 2009. The most recent update shows that the income eligibility requirement for a family of four is $44,100. The threshold eligibility is $22,050 for a family of four; and, at 200 percent of the threshold, the eligibility requirement is $44,100. This eligibility income guideline is updated by the DOE in February of each year.

[46] Source: www.census.gov/cgi-bin/broker. This site tells us that there are an estimated 238,875 persons at or below the federal poverty guidelines in the state of New Hampshire, approximately18.3 percent of the total population of 1,306,207. This estimate is based on the U.S Census Bureau data, collected for the 3-year period 2006-2008 (reported during 2007-2009).

[47] Since the SBC rate for Energy Efficiency is the same rate for all customers, the C&I contribution is made via a reduction in the C&I budget and a corresponding increase in the Residential Low Income budget. In effect, the "contribution" to the Low Income Budget arises from a C&I Rate that remains *unchanged* while the C&I budget is *reduced*.

recommending incorporates an eligibility guideline of 200 percent Income-To-Poverty ratio federal poverty guideline (FPG). By simply increasing or decreasing the Income-To-Poverty ratio, the Commission could easily change the HEA budget allocation, thereby increasing or decreasing the results of the formula.

By comparison, the "negotiated" approach is difficult if not impossible to adjust because it is the result of an overall settlement among the parties.

Q. Please explain why you increase the HEA budget by the C&I contribution.

A. In keeping with Commission Order No. 23,574, it is required that the HEA program be funded by all customers, including C&I customers. The Energy Efficiency (EE) portion of the System Benefit Charge (SBC) rate to C&I customers (and Residential customers) is $0.00018 per kWh and cannot be increased to require C&I customers to fund the HEA low income programs. The only way C&I customers can fund the HEA low Income program is to transfer a portion of its C&I Program spending to the HEA low income program. Hence, the C&I program budget is reduced and the HEA low income budget is increased. The effect of this adjustment is to comply with the Commission Order that the HEA low income program should be funded by all customers, including C&I customers.[48]

Q. Please provide your recommendation for the distribution of ISO-New England Forward Capacity Market (FCM) proceeds to the CORE programs.

A. I recommend no change to the existing methodology. The FCM proceeds are first reduced by 13.5 percent, the HEA budget allocation percent that I recommend. The

[48] Reference Commission Order No. 23,574, at page 6: "the Group agreed that low-income programs should be funded by all customers."

remaining funds are then allocated between the residential sector (30 percent) and the C&I sector (70 percent). The formula used to allocate ISO-New England FCM proceeds to the CORE Residential and C&I programs is based on a two-part formula reflecting the average of (1) forecasted kWh sales and (2) estimated demand savings. The remaining budget amount is split between Residential and C&I Sectors based on the split of projected 2010 kWh sales.

Q. Do you believe that your formula approach is a fair and reasonable approach?

A. Yes, I believe it is fair and reasonable. The goal of recommending a formula approach is to save administrative time in negotiating the HEA budget allocation each year while still producing a result that is fair and reasonable. To measure whether the formula approach produces a fair and reasonable result, I compare the formula approach to the existing Commission approved HEA budget allocation. The existing Commission approved formula is 13.5 percent. The formula approach is 13.5 percent.

A formula approach is only as good as the data that's used in the formula. My formula approach incorporates the most recent U.S. Census Bureau data and the most recent DOE federal poverty guidelines.

Also, my formula reflects a 3-year average of 2006-2008 Census Bureau data and avoids any spikes that might occur in the annual data.

Also, in order to examine whether any HEA budget allocation is fair and reasonable, one needs supporting documentation that is transparent and allows for examination of the data. My proposal meets those criteria; the current "negotiation" process does not.

My formula approach also allows the Commission to make adjustments if it thinks the result is not fair and reasonable. By changing the Income-To-Poverty ratio, the Commission could increase or decrease the budget allocation, as it deems appropriate. See Schedule JJC-2, page 3 of 3 for an illustration of options at various Income-To-Poverty ratios.

Q. Please summarize your testimony on the HEA Budget Allocation.

A. I recommend that the Commission approve my recommended formula approach for 2010 and thereafter. It is a streamlined approach that is administratively easy to use each year and will save a lot of time and expense while, at the same time, it will generate a reasonable and fair HEA budget allocation. If the Commission were to conclude that the outcome of the formula approach was either too high or too low, the Commission could adjust the Income-To-Poverty ratio to achieve the outcome that it believed is fair and reasonable. In essence, the Commission could use the formula approach as the foundation in its decision making.

Performance Incentive Calculations

Q. Earlier in your testimony, you mentioned that a working group was created to review performance incentives. What were the recommendations of the working group.

A. The recommendations of the working group pertained to two matters as follows: technical review of how the performance incentives are calculated and a review of the format for reporting performance incentives.

Q. Were the recommendations implemented in the 2010 filing?

A. Yes. Both recommendations were implemented in the 2010 filing. With respect to the calculation of performance incentives, some differences among the companies were identified and have been clarified in the 2010 CORE budget. With respect to the expansion of the format for proposing performance incentives, each company provided additional information in support of performance incentives in the 2010 CORE budget. Specifically, each company provided additional information pertaining to capacity and energy savings.[49]

Q. Do you have any other comments about performance incentives?

A. Yes. I recommend two changes for 2010 and going forward to improve the Commission's documentation pertaining to performance incentives. First, I recommend that the companies file their respective annual performance incentive filings by June 1 of each year. The companies have indicated that they will make an effort to file in May or June. Staff, in turn, will make an effort to review the filings and resolve any differences within ninety days.

[49] Reference CORE Filing at page 69, 74, 79 and 84.

<u>Other Matters:</u>

Q. Please provide your comments on any other matters.

A. With respect to the calculation of 2008 performance incentives, I'll be incorporating several issues identified in the NHPUC Audit Report in the final calculation of 2008 performance incentives.

In addition, I suggest several topics for review by the CORE Team in 2010 including: (1) additional reporting requirements stemming from the issues identified in the NHPUC Audit Report pertaining to a reconciliation of the SBC funding and expenditures, (2) caps on rebates for the C&I programs, (3) accounting for common costs of CORE vs. RGGI programs, and (4) whether to implement multi-year CORE filings and what the appropriate timing for the filing should be.

Q. Does that complete your testimony?

A. Yes, it does, thank you.

DE 09-170 **Schedule JJC-1**
2010 CORE Program

Estimated Overstatement of Performance Incentives
Attributable to the NH Performance with Energy Star Program
Due to Budget cost for both Electric and Non-Electric Portions
Included in the Budget for Calculating Performance Incentives.

		PSNH	UES
Electric and Non-Electric Portion of 2010 Budget		$ 1,620,100	$ 234,270
Estimated Non-Electric Portion:			
Percent	(1)	89.4%	87.9%
Amount		$ 1,448,171	$ 205,908
Baseline Performance Incentive Percent		0.08	0.08
Performance Incentive Related to Non-Electric Poortion		$ 115,854	$ 16,473

footnotes:
(1) Estimate of Budget related to Non-Electric Benefits:

	PSNH	UES
Total Benefits (CORE Filing at page 78)	$ 2,860,000	$ 617,300
Non-Electric Benefits (CORE Filing at page 79)	$ 2,556,489	$ 542,565
Percent Non-Electric Benefits to Total Benefits	89.4%	87.9%

HEA Budget Allocations
Proposal vs. Staff Recommendation

	Proposal		Staff Recommendation	
Income-To-Poverty Levels	unknown	(1)	200%	(4)
HEA Low Income Budget Allocation - Amount	$ 2,700,487	(2)	$ 2,608,789	(5)
Overall CORE Budget	$ 19,289,195	(2)	$ 19,289,195	(2)
Percent HEA Low Income Budget to Overall Budget	14.0%	(3)	13.5%	(6)

footnotes:

(1) The Proposed percentage is 14% (filiing at page 35); but the calculated percentage is actually 14.9%.
(2) Calculated: $19,289,195 x 14%. The CORE Filing is $2,870,141, an unreconciled increase of $169,654.
(3) Source: CORE Filing at page 88.
(4) Source: U.S. DOE Weatherization Program Notice 09-5, February 18, 2009
(5) Calculated: $19,289,195 times 13.5 percent
(6) Source: U.S. Census Bureau at www.census.gov/cgi-bin/broker (based on 2006-2008 data at 200 percent Income-To-Poverty level.

Appendix A

NHPUC Audit Reports:

1. National Grid
2. New Hampshire Electric Cooperative (NHEC)
3. PSNH
4. UES

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	$137,968
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	$1,621,775
Net 2008 Over-collection	**$ 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 Energy Efficiency Regulatory Account 232455	($ 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)	(22,220)
Subtotal of Regulatory Account **232455**	**(817,196)**
Beginning Balance DSM Incentives Regulatory Account 242300	$460,525
Shareholder Incentives debited 242300 (offset 451010)	224,279
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 Cmmrcl Bldg X03722	$-0-	$8	$-0-	$-0-	$-0-	$-0-	$8
DstrbtdRsrcs 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

		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 2008 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 Ragulation and Pricing Department the currect rate to use is the one stated by The Federal Reserve. Accounting will make an adjusting entry for th

FCM Revenue
Bob agrees with Accounting - FCM Revenue should be 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 remaing balance of

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 then entitled to. Per the Core Energy Efficiency Programs revised filing, dated 2/29/08, page 24, it states that the program pays National Grid <u>70% of the installed costs up to the customer's incentive cap.</u> Per the nhsaves@work small business solutions brochure it states *"Through this program, National Grid will pay up to a maximum of 70% of <u>labor and material costs</u> for installation of these energy efficient measures."*

Audit requests that we have continued discovery so as to determine the <u>actual amount</u> 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.

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 – New Hampshire Electric Coop.
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 New Hampshire Electric Coop. (NHEC) 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 Carol Woods, Energy Solutions Manager at NHEC, for her 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 tariff on file at year end 2008 reflects the increase in the EAP portion and shows the total SBC to be $.0033. NHEC does not apply the EE portion of the 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 8% calculated incentive was $96,745, based on the budget as filed in docket DE 07-106 of $1,209,315 (see CORE filing page 80). NHEC does not estimate the actual incentive during the program year, rather posts the actual earned incentive in December of the year following the program year with which the incentive is associated. Audit reviewed the posting in December 2008 of $132,284 which was the actual incentive earned for program year 2007. The entry was a debit to 254.40 Miscellaneous Deferred Credit – DSM Over Recovery, and a credit to 426.52, Planned Program Incentive. NHEC properly, does not calculate any interest to add onto the Commission approved shareholder incentive.

<u>Summary of *2008* Activity as Audited vs. Reported</u>

	Audited	Reported	
Total SBC Revenue **Audit Issue#1**	$1,339,470	$1,332,875	
Total Interest on net EE activity	19,451	19,451	
Subtotal SBC revenue	$1,358,921	$1,352,326	
Total Energy Efficiency Expenses	$1,230,583	$1,228,720	Schedule H
NET FCM (Revenue)/Expense	(34,953)	(34,953)	
Incentive	132,284	132,284	
Subtotal EE expenses	$1,327,914	$1,326,051	
Net <u>2008</u> Over-collection	**$ 31,007**	**$ 26,275**	

<u>Verification of EE Activity</u>

<u>System Benefit Charge (SBC)</u>

According to the NHEC 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 740,470,889. However, the total kWh sales, including outdoor street lighting, should have summed to 744,149,741. The total annual kWh sales for which the $.0018 portion of the total SBC was <u>not</u> charged were 3,678,852. For 2008, the under-collection of energy efficiency SBC revenue was $6,622. **Audit Issue #1**

<u>Calculation of Interest</u>

Interest is calculated on the net activity of the EE program. The NHEC Finance Department noted that the interest rates used monthly during 2008 should have been the quarterly prime rate of the Bank of America (based on the prime as of the first of the month of the preceding quarter), rather than the quarterly Wall Street Journal prime rate provided to the utilities by Mark Naylor, Director at the NHPUC. There was an adjustment booked at the end of the year in the amount of $8,127, which brought the total interest for the year to $19,451 Interest on the net activity was included in the EE model used by Accounting was properly recorded as a source of funding.

<u>Expenses</u>

Audit verified the expenses to the general ledger. Throughout the auditing process, several adjustments were noted. Please refer to the detail outlined on page 7 and identified as **Audit Issue #2**.

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 reported activity for the FCM including 2007 was inaccurately reflected in the filing. Expenses for 2007, reported to be $1,824 inadvertently did not include a total of $410 in account #24.416.55. Therefore, the *cumulative* total shown on the FCM actual in docket DE 07-106, $41,331 net, income minus expenses, should be $40,921. As noted in the NH CORE Energy Efficiency FCM portion of the filing in docket DE 07-106, NHEC reflected the following actual activity for 2008, while Audit verified the following:

	Reported	Verified
FCM Payments Received from ISO-NE 2007	$10,645	$10,645
FCM Payments Received from ISO Q1 2008	10,422	10,422
FCM Payments Received from ISO Q2 2008	6,948	6,948
FCM Payments Received from ISO Q3 2008	1,097	1,097
FCM Payments Received from ISO Q4 2008	20,270	20,270
Total Payments Received	$49,382	$49,382

	Reported	Verified
FCM Expenses Financial Assurance 2007	500	500
FCM Expenses Financial Assurance Q4 2008	750	750
FCM Other Expenses 2007	*1,824*	*2,234*
FCM Other Expenses Q1 2008	958	958
FCM Other Expenses Q2 2008	1,960	1,960
FCM Other Expenses Q3 2008	1,136	1,136
FCM Other Expenses Q4 2008	923	923
Total Expenses	$ 8,051	$ 8,461
Net Income (excluding interest)	**$41,331**	**$40,921**

The reported FCM expenses are understated due to the exclusion of $410 noted in account 24.416.55. **Audit Issue #3**

Activity relating to the FCM is reflected in the balance sheet reconciliation of the EE programs. As such, the inclusion results in application of interest on the net EE activity.

Audit was provided with the monthly ODR reports submitted by NHEC to the NE-ISO. January through September reports were related to one "project", those resources in place up to and including April 30, 2007. A second resource project was requested to be completed for those projects completed after May 1, 2007. A second series of reports, beginning in October 2008, was also provided to Audit.

Expenses by Program and Category

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

	Internal Admin.	**External Admin.**	**Rebates Services**	**Internal Implmntn**	**Marketing**	**Evaluation**	**TOTAL**
Energy Star Homes	$6,568	$856	$49,453	$45,175	$1,308	$3,223	$106,583
Home Energy Solutions	$7,243	$530	$126,331	$17,534	$1,602	$5,872	$159,112
Energy Star Appliances	$7,384	$541	$75,813	$17,568	$2,926	$3,715	$107,947
Home Energy Assistance	$13,644	$996	$137,865	$33,988	$2,707	$9,412	$198,612
Energy Star Lighting	$7,517	$551	$67,710	$25,520	$7,537	$4,216	$113,051
Residential **OTHER**	$4,537	$831	$97,067	$96,937	$ 903	$2,226	$202,501
Total RESIDENTIAL	**$46,893**	**$4,305**	**$554,239**	**$236,722**	**$16,983**	**$28,664**	**$887,806**
Large C&I New Equip & Construction	$10,325	$745	$116,676	$32,247	$4,513	$4,990	$169,496
Large C&I Retrofit	$4,681	$338	$54,408	$14,888	$2,046	$2,262	$78,623
Small Business EnergySolution	$4,063	$293	$42,876	$19,808	$3,385	$1,965	$72,389
Company Specific	$1,155	$81	$11,393	$6,618	$602	$557	$20,406
Total C&I	**$20,224**	**$1,457**	**$225,353**	**$73,561**	**$10,546**	**$9,774**	**$340,914**
TOTAL NHEC	**$67,117**	**$5,762**	**$779,592**	**$310,583**	**$27,529**	**$ 38,438**	**$1,228,720**

The following *was supported by the documentation provided to PUC Audit*:

	Internal Admin.	**External Admin.**	**Rebates Services**	**Internal Implmntn**	**Marketing**	**Evaluation**	**TOTAL**
Energy Star Homes – 141	$6,121	$823	$49,453	$44,598	$1,219	$3,003	$105,217
Home Energy Solutions – 143	$11,279	$826	$126,331	$21,886	$2,406	$7,852	$170,581
Energy Star Appliances -140	$6,882	$504	$75,813	$16,922	$2,827	$3,469	$106,417
Home Energy Assistance -117	$12,722	$928	$137,865	$32,798	$2,523	$8,959	$195,795
Energy Star Lighting -116	$7,009	$513	$67,710	$24,862	$7,436	$3,967	$111,498
NHEC-ETS – 111	$3,374	$247	$36,189	$57,640	$672	$1,656	$99,778
NHEC–Std HW-112	$114	$8	$1,858	$1,194	$23	$56	$3,252
NHEC-Stg HW-113	$27	$2	$481	$283	$5	$13	$812
NHEC-Dual Fuel-114	$702	$51	$12,347	$6,615	$140	$344	$20,198
NHEC-Heat Pump-174	$-0-	$500	$45,940	$30,791	$-0-	$-0-	$77,231
NHEC-SmartStart-184	$20	$1	$250	$22	$4	$10	$307
Total RESIDENTIAL	**$48,250**	**$4,405**	**$554,239**	**$237,610**	**$17,254**	**$29,330**	**$891,085**
Large C&I New-139	$9,636	$694	$116,676	$31,796	$4,376	$4,652	$167,831
Large C&I Retrofit-128	$4,367	$315	$54,408	$14,681	$1,984	$2,108	$77,862
Small Business ES – 127	$3,789	$273	$42,876	$19,627	$3,331	$1,829	$71,726
NHEC SmartStart-185	$27	$2	$344	$163	$108	$13	$657
NHEC STEM – 129	$1,053	$76	$11,049	$6,406	$479	$508	$19,571
Total C&I	**$18,872**	**$1,359**	**$225,353**	**$72,673**	**$10,278**	**$9,111**	**$337,647**
NHEC-172	$333	$-0-	$-0-	$-0-	$-0-	$-0-	$333
Total NHEC	**$67,455**	**$5,765**	**$779,592**	**$310,283**	**$27,531**	**$38,440**	**$1,229,066**
Adjustments							**($9,919)**
Adjustments							**$9,919**
Adjustments					**($2,000)**		**($2,000)**
Adjustments							**$19,219**
Adjustments							**$102**
Adjustment							**($15,804)**
TOTAL NHEC					**$25,531**		**$1,230,583**

EE Expenses

The detailed Schedule H (of actual program activity) does not include any of the activity associated with the Forward Capacity Market, rather, reflects the Core programs and NHEC specific programs only. Audit verified the expenses to the NHEC general ledger.

NHEC captures the activity for the various programs through use of specific accounts beginning with "24" and "68". Twenty specific sub-accounts, each with activity codes indicating the type of EE expense and cost category, were reviewed for the test year.

The adjustment lines at the bottom of the grid are recommendations and observations made by both the PUC Audit Staff as well as the NHEC Staff. Specifically:

- $333 noted in activity code 172 on the general ledger account 416.77 appears to be a posting error.
- The transfer of $9,919 is recommended, due to a misposting of the payroll benefits to account 24.416.49 which should have posted to account 24.416.48. The allocation among the programs must be determined by NHEC.
- The reduction in Marketing expenses in the amount of $2,000 is due to a duplicate payment to the Mt. Washington Valley Chamber of Commerce. The sponsorship invoice, in the amount of $1,000 was paid twice on December 16, 2008, posting to account 24.416.65 Sales Expense Marketing. One entry had activity code 164 which is spread among all programs, and the other entry had activity code 165 which does not appear to be related to EE. As a result, the total recommended adjustment was identified, but the allocation among the programs should be determined by NHEC.
- The adjustment of $19,219 was identified by NHEC as postings in several general ledger accounts, representing labor, field salaries, etc. which posted to the general ledger with the wrong activity codes. As a result, the report to the PUC did not include this figure, as the reporting process at NHEC picks up the general ledger accounts and activity codes associated with EE. The allocation among the programs and cost categories must be determined by NHEC
- $15,804 was an overstatement of benefits calculated improperly for department 68. The allocation among the programs and cost categories must be determined by NHEC.
- The adjustment of $102 is an immaterial rounding error identified during the reconciliation process by the NHEC. Any allocation among the programs and cost categories must be determined by NHEC.
  Refer to **Audit Issue #2**

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. 70% of all program costs are direct charged to the programs. The 30% of allocated expenses were verified to the general ledger and allocation spread detail provided by NHEC.

Indirect program costs such as training, evaluation studies, etc., are reviewed (by NHEC) to determine if the cost should be spread among all programs (activity code 162), or more appropriately spread among distinct sectors, such as the Residential Load Management (activity code 161), All Residential programs (activity code 163), or Commercial & Industrial programs (activity code 164). Once posted to the appropriate activity code, an automated calculation is made monthly to post the indirect cost to the specific EE program within the sector, with the percentage allocated based on each program's direct cost as a percentage of total sector direct cost.

Specifically:

Internal Administration expenses were verified to four general ledger sub-accounts relating to sixteen specific programs. The total expenses of $67,455 reflect direct charges of $46, payroll benefits allocated in the amount of $27,726, in the amount of $39,462.

External Administration expenses which sum to $5,765 reflected $875 direct charged and $4,890 allocated expenses. The total was verified to two general ledger sub-accounts. Direct expense posting were made to two activity codes (programs) and the allocated expenses were spread among fifteen programs.

Rebates and Services, which totaled $779,590, had $751,909 directly charged to the specific program. The remaining $27,681 representing allocations of labor, benefits, transportation were verified to four specific sub-accounts, spread among twelve programs.

Internal Implementation total of $310,283 was verified to nine sub-accounts with four of those representing direct charges of $98,039. Allocation of the remaining $212,244, noted in five sub-accounts, was spread among all sixteen programs.

Marketing costs of $25,531 (net of the recommended $2,000 adjustment) was verified to one direct general ledger sub-account and two allocated accounts. $9,361 was directly charged with the remaining $18,170 allocated. The allocations were spread among fifteen programs, with only the Residential Heat Pump not assigned a dollar amount.

Evaluation costs of $38,440 were verified to four sub-accounts, one of which was direct charged to four programs. Total directly charged was $5,679. The allocation of $32,761 was spread among three sub-accounts and fifteen programs.

<u>Labor and Benefits</u>

Audit reviewed the benefits sub-accounts (as detailed above) which reflect, medical, benefits, etc. and was informed that annually during the NHEC budget process overall, a review of anticipated benefit costs is divided by the anticipated payroll and a factor is determined. For 2008, the result was 50%. Audit verified a sample of the benefits to ensure the calculation for the energy efficiency program allocation was accurate. There were no exceptions. Audit noted one misposting in the amount of

$9,919. The figure represents payroll benefits which posted to sub account 24.416.49, Outside Services but should have posted to 24.416.48, Benefits. NHEC should determine the allocation adjustment necessary among the programs and cost categories. When the total payroll was reviewed, and the referenced benefits (50%) was verified to two general ledger accounts, an error of $14,147 was determined by both Audit and NHEC Finance. Refer to Audit Issue #2.

Outside Services $6,172

Audit requested support for 100% of the legal expenses and was provided with invoices from Devine, Millimet & Branch. A total of $4,493 was charged to the EE program. This represents 73% of the outside services balance in the general ledger of $6,172. The legal invoices were assigned activity code 162, indicating a spread among all of the EE programs.

Evaluation $38,440

Audit requested copies of invoices related to GDS Associates, issued from the Business Office at the PUC for statewide studies. $27,542 was paid to GDS with the Evaluation cost category spread among all programs.

An invoice from The Consortium for Energy Efficiency, in the amount of $2,800 representing 2008 membership dues, was listed in the Evaluation cost category, spread among all programs.

Monthly invoices from Performance Systems Development, in the amount of $422 were reviewed. Each is posted 50% to Evaluation for Low Income Home Energy Assistance, and 50% to Home Energy Solutions. For 2008, a total of $5,048 was paid. The system for which the ongoing monitoring and support was required is the TREAT-OTTER, used across the state for low income and efficiency monitoring.

Rebates & Services

NHEC provided Audit with a copy of their Transaction Activity (general ledger) for the Core Energy accounts for 2008. The Customer Services & Rebates total of $779,592 represents approximately 63% of total program costs. The following includes Audit's review of direct charged actual costs for Customer Rebates & Services for each program.

Energy Star Homes $49,453

Customer Rebates & Service charges to activity code 141, Energy Star Homes, included invoices from GDS Associates, Inc. for certification services of plans review, insulation inspection (site visit) and final inspection.

The month of July postings to Customer Rebate & Service, activity code 141, included a charge of $3,650 for a geothermal rebate. **Audit Issue #4**

Home Energy Solutions $126,331

Customer Rebates & Service charges to activity code 143, Home Energy Solutions (Residential Program), included invoices for services of energy audits. These invoices include an administrative charge and rebates for retrofit of homes.

Audit's random sample found one invoice in May for $5,979 that included a rebate of $3,450 and administrative charge of $550 for geothermal. **Audit Issue #4**

A charge of $2,302 in October for the above was questioned by Audit. Per NHEC, *"It was a program to certify contractors who work in the field providing audits. The certification program is called Building Performance Institute certification. (BPI)* The amount is an allocation equal to 25% of total invoice with another 25% to activity #164, All Business Programs and 50% to Social Responsibility. Once qualified these contractor's would also be providing services to members participating the NHEC Social Responsibility Programs.

A general ledger journal entry was done in December charging the above program for $54,551 of Customer Rebates and Services. Audit's review of the support for this entry showed that a vendor invoice dated January 16, 2009 was for year 2008. Support showed the services provided was air-sealing and insulation for 30 units of a condominium building. The units all have baseboard electric heat as the primary heat source. Approximately 1/3 of them have ETS heaters and are on the off peak rate.

Energy Star Appliances $75,813

Audit reviewed several outside service company invoices for rebates on appliance purchases. These Customer Rebate & Service charges to activity code #140 also include processing fees for each rebate handled.

Home Energy Assistance $137,865

NHEC has contracted with the Rockingham County Community Action, Tri-County Community Action, Southwestern Community Services, Belknap-Merrimack Counties CAP, Strafford County Community Action Weatherization, (CAAs) and the South Middlesex Opportunity Council (SMOC) to provide services to the low income eligible customers.

Audit requested and was provided with 100% of the invoices for 2008.The total paid to the CAAs and SMOC amounted to $137,865 including the CAA administrative cost and the measure or rebate cost. These direct payments represent 70% of the total HEA category of EE expenses.

Energy Star Lighting $67,710

Audit reviewed several outside service company invoices for instant coupons on CF lamps and CF fixtures. These Customer Rebate & Service charges to activity code #116 also include processing fees for each coupon handled.

NHEC Specific-Residential $97,065

Residential Load Management is comprised of the following:

- ETS, Electronic Thermal Storage, activity code 111, $36,189
- Std HW, residential controlled hot water, activity code 112, $1,858
- Stg HW, residential controlled hot water storage, activity code 113, $481
- Dual Fuel, activity code 114, $12,347
- Residential Heat Pump, activity code 174, $45,940.
- Residential activity code 184, $250

Audit's review of Customer Rebates & Services charges to activity code #174, Heat Pump (CCHP & Geothermal) included several invoices with support describing the new construction as "energy star".

The Residential SmartStart (activity code 184) program allows users to pay for measures over a period of time, with the monthly payment less than or equal to the amount of electricity saved through implementation of the measure. The total expenses for the year were $307, with Rebate of $250 representing 81%.

Large Commercial & Industrial $116,676

Audit reviewed several invoices in Customer Rebates & Service for activity code #139, New Construction-Business (New Construction C&I). Rebates for this program can be prescriptive or custom. Support provided for a prescriptive rebate included a worksheet entitled New Equipment and Construction (NE&C) that showed rebates based on fixed amounts. An example would be a light fixture multiplied by a set dollar amount for each, or an air compressor based on $ x horse power, etc. Support for a custom rebate also included a NE&C worksheet that described in detail the special designed project and the rebate. Additional support for a custom rebate would be a benefit/cost (b/c) calculation sheet.

During the exit audit discussions it was noted that the NE&C rebate cap for existing NHEC members with one or more current electric accounts, was up to $15,000 per program year, per electric meter. The NE&C rebate cap for new members who do not have existing electric accounts was up to $10,000 per electric meter.

For 2009 the NE&C rebate cap for existing NHEC members, with one or more current electric accounts, is up to $15,000 per program year, per capital credit number. The NE&C rebate cap for new members who do not have existing electric accounts is up to $10,000 per capital credit number.

Customer Rebates & Services postings reviewed by Audit included construction projects receiving rebates for HVAC, compressed air horsepower, lighting, PSC motors and three maximum rebates of $15,000 to ski areas for snow gun purchases, snow gun leases and snow machines.

Audit's sample noted one company that received rebates for New Construction-Business as well as Large Commercial & Industrial Retrofit. There were no exceptions.

Large Commercial & Industrial Retrofit $54,408

Audit notes that this program offers prescriptive and custom rebates. The program rebate cap for existing NHEC members is $15,000 per program year, per capital number.

Customer Rebates & Services, activity #128 postings reviewed by Audit included three construction retrofit rebates for LCI motors and one compressor horsepower. The postings also include a rebate in December for a ski area that purchased pole cat snowmakers.

Small Business Energy Solutions $42,876

This program offers prescriptive and custom rebates. The NHEC cap is 50% of the installed cost up to $7,500 per capital credit number.

Audit reviewed two invoices posted in Customer Rebates & Services that were for retrofit of walk in coolers for two stores owned by a national chain. The rebates were 50% of customer equipment cost.

NHEC Specific $20,228

The Commercial company specific total is comprised of two programs. One activity code 185 allows the users to pay for measures over a period of time, with the monthly payment less than or equal to the amount of electricity saved. Customer Rebates & Services were $344.

The Commercial Educational or STEM program in activity code 129 had Customer Rebates & Services charges of $11,049 for the year. Audit reviewed one invoice for $9,000 to Customer Rebates & Services that was for fees for energy programs in December at elementary schools in Lee and Lincoln, N.H.

NHEC *Allocated Customer Service & Rebate*

Audit reviewed a Customer Rebate & Services charge to 24.416.19 **code 164**, *All Business Programs* for $2,302. The services provided was training contractors who work in the field providing audits. The amount charged was an allocation of 25% of the total invoice. (See activity code#143). Audit understands that charges to activity code #164 are allocated among all EE programs.

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 NHEC uses account 254.40 as the tracking account for the activity related to the accrued revenue. The cumulative activity total since inception to the end of December 2008 was a credit balance of $140,286. This indicates that over the six year period, the EE program has collected more revenue than has been used in the program.

The activity for the year was under-expensed on the reconciliation in the amount of $1,625 The error was identified by NHEC and will be corrected in 2009.

Senate Bill 228

As noted in the filing, during 2006 the bill authorized a transfer of funds from the energy efficiency program to the special winter electric assistance program (SWEAP). The transfer was recoverable through a reduction of the EE budgets in equal amounts over three years, beginning with the EE budget for 2007.

PSNH and the NHEC, as authorized by SB228, transferred funds from EE to the SWEAP. PSNH transferred $2,805,231 and has reduced its EE budgets in the years 2007, 2008, and 2009 by $935,077. The NHEC transferred $258,336 and has reduced its EE budgets in 2007, 2008, and 2009 by $86,112.

Audit Issue #1

kWh and SBC

Background

Utilities are required to assess the System Benefits Charge on kWh sales, with the exclusion of company use and sales for resale.

Issue

Three categories of outdoor lighting are assessed only the low income portion of the total system benefits charge, or $.0015 rather than the full $.0033.

For 2008, the variance in kWh is 3,678,852 which calculates to an underfunding of the energy efficiency program by $6,622.

Recommendation

In accordance with RSA 374-F:4 XII, the NHEC "…shall be subject to the commission's jurisdiction with regard to those provisions of RSA 374-F pertaining to stranded cost recovery, customer choice, open access tariffs, default service, energy efficiency, and low income programs to the same extent as other public utilities." (Emphasis added)

Company Comment

NHEC agrees with the auditor's conclusion that NHEC has mistakenly excluded the EE portion of the SBC in its outdoor lighting charges. This error appears to date back to the initial unbundling of NHEC's rates. NHEC does not believe that this error has materially impacted its overall SBC revenues or the programs which those revenues fund. Subject to Commission approval, NHEC intends to correct this error on a going-forward basis.

PUC Audit Comment

Audit concurs with the Comment above, and anticipates that the adjusted tariff pages will be filed with the Commission as soon as possible.

Audit Issue #2

Reported Expenses

Background

Total expenses reported to the NHPUC for program year 2008 were $1,228,720. The general ledger CORE detail as audited sums to $1,232,240.

Issue

- $333 noted in activity code 172 on the general ledger account 416.77 appears to be a posting error, as it is included in the general ledger but is not on the report and the activity code does not appear to be

- $9,919 is a misposting of the payroll benefits to account 24.416.49 which should have posted to account 24.416.48. The total dollar amount does not change, but the allocation among the expense categories is incorrect.

- Marketing expenses are overstated by $2,000 due to two factors. The first is the result of a duplicate payment to the Mt. Washington Valley Chamber of Commerce. The sponsorship invoice, in the amount of $1,000 was paid twice on December 16, 2008, posting to account 24.416.65 Sales Expense Marketing. One entry had activity code 164 which is spread among all programs, and the other entry had activity code 165 which does not appear to be related to EE. The second issue is that the sponsorship is for 2009, not 2008.

- The adjustment of $19,219 was identified by NHEC as postings in several general ledger accounts, representing labor, field salaries, etc. which posted to the general ledger with the wrong activity codes. As a result, the report to the PUC did not include this figure, as the reporting process at NHEC picks up the general ledger accounts and activity codes associated with EE. The allocation among the programs and cost categories must be determined by NHEC

- Benefits associated with payroll expenses of department code 68 were overstated for 2008 by $15,804. The allocation among the programs and cost categories must be determined by NHEC.

- Finally, the adjustment of $102 is an immaterial rounding error identified during the reconciliation process by the NHEC. Any allocation among the programs and cost categories must be determined by NHEC.

Recommendation

It is recommended that the report of actual 2008 program expenses provided to the Commission be updated with the revised data.

Company Comment

In regards to numbers 1,2,4 and 6 above, where these items were posted to incorrect GL accounts or activity codes within 2008, NHEC will reclassify these items to the proper GL accounts or Activity codes and re-run the year-end report to the Commission. However, NHEC's accounting records are closed and audited by external auditors and therefore, will not be reopened for these relatively minor amounts. The corrections will be reflected in the 2008 final incentive calculation report.

In regards to number 3, NHEC will insert a footnote in the 2008 final incentive calculation report stating that implementation expenses are overstated by $2,000 in 2008 and also will insert a footnote in 2009 stating that implementation expenses are understated by $1,000. This is due to a duplicate pre-payment made in 2008 for a 2009 invoice. The duplicate payment was voided in 2009. Also, please note that activity code 164 which is spread among all *business* programs, not *all* programs.

For item number 5, NHEC will make a correcting journal entry in 2009 to properly allocate the benefits that were overstated because NHEC's accounting records for 2008 are closed and audited by external auditors and therefore, will not be reopened for this relatively minor amount. The correction will be reflected in the over/under recovery balance in 2009. NHEC will also insert a footnote in the 2008 final incentive calculation report stating that benefits are overstated by $15,804 in 2008 which will be corrected in 2009.

PUC Audit Comment

Audit concurs with the Comment above, and understands that due to the timing, the actual accounting adjustments cannot be made. Audit also appreciates the clarification regarding the third issue and spread of activity code 164 among all business programs rather than all programs.

Footnotes and references in the final incentive calculation report regarding the adjustments will assist the Electric Division staff at the PUC review the final incentive calculation.

Audit Issue #3

Reported Forward Capacity Market Expenses

Background

The reported FCM expenses are understated due to the exclusion of $410 noted in account 24.416.55

Issue

The issue is a reporting issue only. The figure provided to the Commission failed to include one sub-account of the general ledger.

Recommendation

Audit recommended and the Company agreed that the information provided to NHPUC on the NH CORE Energy Efficiency report for 2008, which showed Other expenses of $1,824 (for 2007) was understated by $410. The issue is a reporting error on the part of NHEC.

Audit recognizes that the Accounting model used by NHEC 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

NHEC agrees with Audit's recommendation.

PUC Audit Comment

Audit concurs.

Audit Issue #4

Customer Rebates & Service Misposting

Background

During the PUC Audit's review of the NHEC Core Energy Efficiency Programs, support for many postings to Customer Rebates & Services was requested.

Issue

Support for one charge of $3,650 to activity, code #141, Energy Star Homes was described as geothermal.

Support for another charge to activity code #143, Home Energy Solutions included a rebate of $3,450 and administrative charge of $550 for geothermal.

Recommendation

NHEC should correct their EE program report sent to the PUC. The report should show $7,650 added to Heat Pump with $3,650 credited to Energy Star Homes and $4,000 credited to Home Energy Solutions.

As the PUC Audit performed a random sample, NHEC must review the year 2008 postings for activity code #141 and #143 and correct any other geothermal mispostings.

Company Comment

NHEC will reclassify the first item to the proper activity code and re-run the year-end report to the Commission. However, NHEC's accounting records are closed and audited by external auditors and therefore, will not be reopened for these relatively minor amounts. The correction will be reflected in the 2008 final incentive calculation report.

In regards to the second item, this project was appropriately coded to the Home Energy Solutions Program. <u>The project was home weatherization</u> for an electric heat home; <u>a geothermal heat pump qualifies as electric heat</u>. This project met the criteria for the Home Energy Solutions Program, which includes 30% electric heat with demonstrated usage. Prior to approval of project, staff verified this usage through member billing data. The heat pump in the above home was installed approximately 10 years ago. In addition, NHEC provides a document from the Department of Energy which gives an overview of geothermal heat pump technologies. Geothermal heat pumps are considered electric heat due to the fact that all of the pumps, compressors and distribution equipment run on electricity. NHEC believes that this item should be removed as an issue and is happy to provide more information if needed.

NHEC has also reviewed the 2008 postings for activity codes 141 and 143 and did not discover any other geothermal mispostings.

PUC Audit Comment

Concerning the first item, Audit concurs with Company Comment and understands that due to timing, the actual accounting adjustment can not be made.

Concerning the second item, Audit reviewed the 2008 CORE New Hampshire Energy Efficiency Program for Home Energy Solutions and note that basic services include insulation and weatherization, which is what the actual invoice to this geothermal heating customer supports as being done. Audit's review of the program also notes that marketing efforts will be targeted first to customers with electric heat and then to those with high electric usage. As the Utility provided support that an Energy Audit was done for this large house with basement and attic geothermal HVAC systems and the results demonstrated 30% electric heat usage then PUC Audit finds that NHEC has provided a compelling argument that the amount of $4,000 was appropriately coded and now agrees to remove this as an issue.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: October 29, 2009
AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner

SUBJECT: CORE Energy Programs – Public Service of New Hampshire (PSNH)
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 PSNH 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 subsequently updated February 29, 2008.

Audit thanks Gil Gelineau, Cynthia Trottier, Issa Ansara, Pam Moriarty, and Tom Belair for their 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 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 No. 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 $13,924,559 (per the detail in DE 07-106, CORE filing page 80).

The 8% calculated incentive was $1,113,964, based on the budget as filed in docket DE 07-106. The model used by Accounting to monitor the income and expenses of the EE program utilizes the 8% or $1,113,964 spread evenly over the twelve months of the 2008 program year. Debits were posted monthly to the PSNH Accrued C&LM general ledger account 229-P9-788, with offsetting entries to 229-P9-799. The net impact on the balance sheet is zero.

In December 2008, PSNH posted the 2007 shareholder incentive true-up in the amount of $655,964. This brought the 2007 incentive up to a total of $1,424,315. (see Docket DE 06-135). PSNH also posted in December 2008 the estimated program year 2008 incentive in the amount of $617,979. This amount was calculated at 12/31/2008, using the same incentive formula used to calculate the final true-up. The true-up calculation for program year 2008 will be provided to the NHPUC in August 2009, with the actual movement of the funds in December 2009.

The annual movement of the incentive which takes place in December of each year posts in the following manner:

Debit 229-P9-799 -PSNH Accrued C&LM Expenses
Credit 421-R9-799 -Below the line revenue account

The balance sheet reconciliation of account 229-P9 also reflects an adjusting debit entry for interest in the amount of $21,796 on the incentive true-up for program year 2007. Audit was informed that the EE model is re-run for the program year to which the trued-up incentive is calculated. In any given year, the final shareholder incentive could be higher or lower than the estimated 8%, thus creating less or more interest to be added to the balance. Because the net activity in the model has interest added or deducted (depending on the net activity for the month), the calculated difference in 2008 for the 2007 true up was a reduction in the EE balance sheet account. The $21,796 for 2007 program year was listed as a reconciling item at 12/31/2008 and cleared in January 2009.

Summary of *2008* Activity as Audited vs. Reported

	Audited	**Reported**
Total SBC Revenue	$14,347,714	$14,347,714
Total Interest on net EE net activity	163,965	150,393
Subtotal SBC revenue	$14,511,679	$14,498,107
Total Energy Efficiency Expenses	$13,376,460	$13,417,587
FCM (Revenue)	(802,538)	(802,538)
FCM Expense ($26,738 included in the EE expense total above)		
Incentive	1,113,964	1,113,964
Subtotal EE expenses	$13,687,886	$13,729,013
Net 2008 Over-collection	**$ 823,793**	**$ 769,094**
2008 retention 2% per RSA 125-O	286,954	-0-

Verification of EE Funding Sources

System Benefit Charge (SBC)

According to the PSNH tariff, usage for kWh is billed as required using the full SBC of $.003. (Total increased to $.0033 October 2008). Audit reviewed the billing summaries for kWh, and the SBC revenue outlined above accurately reflects the EE portion of the total assessed.

Interest Applied to Net SBC/EE

Interest was noted as a funding source, on the balance sheet reconciliation. The interest rate used is the Federal Reserve's prime rate as of the first of the month for which interest is calculated. The calculation appears to include the expenses related to the Forward Capacity Market in the net of the SBC revenue and EE expenses, but the

Revenue associated with the Forward Capacity Market is not included. For the year 2008, the revenue received from the ISO was $802,537. **Audit Issue #1**

The detailed Schedule H (of actual program activity) report does include the expenses associated with the Forward Capacity Market. That breakdown is also reflected on the report to the PUC of the FCM. The reported activity for the FCM including 2007 was accurately reported in the filing. See further detail in the Forward Capacity Market section below.

Regarding the 2% retention, please refer to the Balance Sheet Reconciliation section at the end of this report.

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, PSNH reflected the following actual activity for 2008, and summary of total 2007, while Audit verified the following:

	Reported	Verified
FCM Payments Received from ISO-NE 2007	$ 251,513	$ 251,513
FCM Payments Received from ISO Q1 2008	115,356	115,356
FCM Payments Received from ISO Q2 2008	101,599	101,599
FCM Payments Received from ISO Q3 2008	199,266	199,266
FCM Payments Received from ISO Q4 2008	386,316	386,316
Total Payments Received	$1,054,051	$1,054,051

	Reported	Verified
FCM Expenses Financial Assurance 2007	-0-	$ -0-
FCM Expenses Financial Assurance Q4 2008	-0-	-0-
FCM Other Expenses 2007	13,506	13,506
FCM Other Expenses Q1 2008	10,719	10,719
FCM Other Expenses Q2 2008	11,311	11,311
FCM Other Expenses Q3 2008	2,456	2,456
FCM Other Expenses Q4 2008	2,252	2,252
Total Expenses	$ 40,243	$ 40,243
Net Income (excluding interest)	**$1,013,808**	**$1,013,808**

Activity relating to the FCM expenses is reflected in the balance sheet reconciliation of the EE programs. As outlined above, the expenses are reflected within the overall reported Schedule H activity, allocated among the EE programs, and listed as Evaluation indirect program costs.

Audit requested copies of the reports submitted to the ISO-NE which detail the ODR projects as required. PSNH provides the required data to the ISO via secured weblink directly between PSNH and NE-ISO. The "transition forward capacity market ODR capacity payments" report provided to Audit (in response to request #14 requesting the ODR detail) revenue agrees with the NH CORE Energy Efficiency FCM revenue reported. Total revenue for the year was traced to general ledger account 229P9-788.

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 May 31, 2010 was established to provide fixed payments to suppliers for installed capacity. The payments per kW per month were specified for the transition period.

Incremental Expenses

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

	Internal Admin.	External Admin.	Rebates Services	Internal Implmntn	Marketing	Evaluation	TOTAL
Energy Star Homes	$16,131	$-0-	$725,017	$57,897	$-0-	$10,226	$809,271
Home Energy Solutions	$30,389	$-0-	$758,415	$184,582	$750	$52,560	$1,026,696
Energy Star Appliances	$11,727	$4,901	$581,469	$25,436	$1,587	$32,391	$657,511
Home Energy Assistance	$29,153	$-0-	$2,273,589	$151,729	$1,148	$41,950	$2,497,569
Energy Star Lighting	$19,275	$-0-	$648,520	$49,110	$12,081	$51,424	$780,410
Residential **OTHER**	$5,876	$-0-	$184,959	$29,526	$-0-	$1,485	$221,846
Total RESIDENTIAL	**$112,551**	**$4,901**	**$5,171,969**	**$498,280**	**$15,566**	**$190,036**	**$5,993,303**
Large C&I New Equip & Construction	$39,513	$-0-	$1,858,560	$213,226	$5,522	$48,608	$2,165,429
Large C&I Retrofit	$46,647	$3,431	$2,238,542	$314,712	$8,964	$18,814	$2,631,110
Small Business EnergySolution	$45,677	$-0-	$1,429,053	$366,348	$6,790	$37,516	$1,885,384
Company Specific	$10,938	$-0-	$650,136	$60,645	$6,399	$14,243	$742,361
Total C&I	**$142,775**	**$3,431**	**$6,176,291**	**$954,931**	**$27,675**	**$119,181**	**$7,424,284**
TOTAL PSNH	**$255,326**	**$8,332**	**$11,348,260**	**$1,453,211**	**$43,241**	**$309,217**	**$13,417,587**

The Company Specific includes Educational, C&I RFP Pilot, Customer Partnerships, and Smart Start for Municipalities. The Smart Start portion of the Rebates and Services section is represented by the shareholder incentive of 6% (of loaned funds repaid in 2008 of $591,281 = $35,477), calculated in accordance with Order #23,851. The SmartStart shareholder incentive is not a rebate, and should not be listed as such within the context of the Schedule H, on which the ACTUAL EE SHI is calculated. **Audit Issue #2.**

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

	Internal Admin.	External Admin.	Rebates Services	Internal Implmntn	Marketing	Evaluation	TOTAL
Energy Star Homes ESHOME08	$199 $15,932	$-0-	$725,017	$57,898	$-0-	$8,545 $1,682	$809,273
Home Energy Solutions HES2008	$196 $30,192	$-0-	$758,415	$184,582	$750	$49,373 $3,187	$1,026,695
Energy Star Appliances ESAPP08	$11,727	$4,901	$581,469	$25,436	$1,587	$31,153 $1,238	$657,511
Home Energy Assistance HEA2008	$29,154	$-0-	*$2,267,934*	$151,729	$1,148	$38,872 $3,077	*$2,491,914*
Energy Star Lighting LIGHT08	$19,275	$-0-	$648,520	$49,110	$12,081	$49,390 $2,035	$780,411
Residential EnergyStar Geothermal ESGEO08	$5,876	$-0-	$184,959	$29,526	$-0-	$865 $620	$221,846
Total RESIDENTIAL	**$112,551**	**$4,901**	**$5,166,314**	**$498,280**	**$15,566**	**$190,037**	**$5,987,650**
C&I New Construction CINEW08	$39,513	$-0-	$1,858,560	$213,226	$5,522	$44,437 $4,171	$2,165,429
Large C&I Retrofit LCIRET08	$67 $46,580	$3,431	$2,238,542	$314,712	$8,964	$13,897 $4,917	$2,631,110
Small Business EnergySolution SCIRET08	$516 $45,162	$-0-	$1,429,054	$366,348	$6,790	$32,749 $4,767	$1,885,386
PSNH Education CIEDU08 **	$-0-	$-0-	$154,392	$17,675	$6,399	$-0-	$178,466
PSNH C&I RFP Pilot RFP08 **	$-0- $9,878	$-0-	$439,307	$21,348	$-0-	$13,200 $1,043	$484,776
PSNH Partnerships CIPART08 **	$-0-	$-0-	$20,960	$-0-	$-0-	$-0-	$20,960
PSNH Smart ** Start SSMUN08	$1,060	$-0-	*$-0-*	$21,622	$-0-	$-0-	*$22,682*
Total C&I	**$142,777**	**$3,431**	**$6,140,815**	**$954,931**	**$27,675**	**$119,181**	**$7,388,810**
TOTAL PSNH	**$255,328**	**$8,332**	**$11,307,129**	**$1,453,211**	**$43,241**	**$309,218**	**$13,376,460**

The audited Rebate total of $11,307,129 includes $130,867 worth of expenses paid in relation to the NH Saves Catalog. The company has indicated that, on a going forward basis, these expenses will be noted as <u>Marketing</u> expenses. Please see additional discussion in the Rebate section of this report, specifically relating to the Energy Star Lighting.

The grid above reflects the expenses as audited. For blocks with more than one entry, the top figure represents direct charges and the bottom that program's portion of allocated charges. The program totals agree with those reported on the grid on page 5, with the exception of the Home Energy Assistance. The Rebate column should be $2,267,934 rather than the $2,275,589. Please refer to the Rebate discussion and related Audit Issue #3.

The ** indicates that these four utility specific programs are combined into one line item called "Company Specific" on the grid on page 5. The reported total of $742,361 on page 5 is higher than the audited sum of the grid on page 6 by $35,477, which is the Smart Start shareholder incentive discussed in Audit Issue #2.

Audit reviewed the general ledger and allocation model used to coordinate the detail of costs by program and by charge type, as outlined above. 98% of all expense types were direct-charged to the program per work order, and to the activity charge type by activity code. The remaining 2% of expenses for the year were verified to two specific workorders. NHCORE represents labor, benefits and overhead for time spent working on the EE but not on a specific program. The other workorder related to indirect charges allocated among all programs for labor, benefits and overhead associated with the Forward Capacity Market.

Allocation percentages used to spread indirect costs for program year 2008 were:
6.29% Energy Star Homes
11.92% Home Energy Solutions
4.63% Energy Star Appliances
11.51% Home Energy Assistance
7.61% Residential Lighting
2.32% EnergyStar Geothermal
15.6% C&I New Construction
18.39% C&I Retrofit
17.83% Small C&I Retrofit
3.9% RFP Pilot

The work orders are closed after year end, and the last two digits changed to reflect the new program year, ensuring that activity is posted to the proper CORE program and program year.

<u>Rebates & Services</u>

Audit noted that PSNH charges for Rebate & Services totaled $11,307,094, or approximately 85% of total core program costs. The following includes Audit's review by program of actual costs included as Rebates & Services.

Energy Star Homes $725,017

Audit reviewed several large outside service invoices. It was noted that the invoices included charges for multi family unit rebates. (Apartment complexes). Also there were several GDS Associates, Inc. invoices for services to review plans, conduct mid construction site visits and conduct completion visits.

Home Energy Solutions $758,415

Audit reviewed several outside service invoices for which the total included rebates for large apartment complexes. An administrative charge is added by the vendor for services.

From the sample selected Audit did not find any customer rebate greater than the cap which was $4,000.

Energy Star Appliance $581,469

Audit noted many outside services company invoices for rebate coupons for appliances. The outside service company includes a processing fee for each appliance rebate collected and mailed to purchasers.

Home Energy Assistance $2,273,589 – Audit Issue #3 ($5,655) =$2,267,934

Audit's review of actual costs included examining the Community Action Agency (CAA) invoices paid by PSNH. The cap is $4,000 per participant. Audit reviewed the invoices and did not find any overpayments.

While SBC funding is limited to $4,000 per participant many measures provided exceed this cap using a combination of funding sources including DOE Weatherization Assistance (Wxn), the Home Program, Community Development Block Grants, gas company programs, and LIHEAP.

In 2008, PSNH was directed to supplement HEA funding with proceeds from SO2 auction allowances. Total SO-2 invoices paid by PSNH were $124,709 for the year and are included in the above Home Energy Assistance expenditure of $2,273,589.

Audit found that when presented with CAA invoices, PSNH staff voided several which led to the CAA sending corrected invoices. The PSNH cancellations were due to QA issues. There appear to be controls in place regarding review of the CAA invoicing. However, Audit's review found seven double payments on the SO2 funding invoices totaling $5,655. Per the response of PSNH, *"Overpayments did happen on several SO2 funding invoices during 2008 program year. Our tracking system was designed to generate invoices only for standard HEA funding. SO2 funding invoices were generated using an extract from the database to keep track of which measures were already paid for manually. Some records that had already been paid were not noted correctly and inadvertently were paid twice. The double payments were caught and identified when reconciling program numbers at the end of the year."* **Audit Issue #3**

Audit also reviewed several invoices charged to Home Energy Assistance for appliances. No exceptions were noted.

Energy Star Lighting, $648,520

Audit noted many large outside service invoices for handling of rebate coupons. The service company charges a processing fee for each light rebate.

Two large Energy Federation Inc. invoices were included in the Energy Star Lighting cost shown above. The service provided was for printing, mail preparation and postage of *NH Saves Catalogs*. Audit noted that one of the Energy Federation Inc. invoices totaled $98,729. PSNH allocated 78.4% of the total to this program and 21.6% to the Small C&I Retrofit program. The other invoice, totaling $32,139 was also for NH Saves Catalogs and was direct charged to the above Energy Star Lighting Program.

PSNH has discussed with Audit and agrees that these expenses are more appropriately considered Marketing expenses rather than Rebates and Services, and going forward will list them as such.

Other Residential Programs-Utility Specific, $184,959

Energy Star Geothermal

Audit reviewed several invoices for geothermal rebates to customers and home builders. Support showed that the rebate is determined by the home size multiplied by $2.00 per square foot. The cap is $7,500. No exceptions were noted.

Commercial & Industrial (C&I) New Construction, $1,858,560

Total rebates for the year amounted to $1,782,960 and customer audits totaled $75,600. The C&I New Construction program offers prescriptive and custom rebates. Support for a prescriptive rebate includes a worksheet entitled New Equipment and Construction (NE&C) that shows the rebate based on fixed amounts. An example would be a light fixture multiplied by a set dollar rebate amount for each or an air compressor based on $ x horsepower, etc. Support for a custom rebate also includes an NE&C worksheet that described in detail the special designed project and the rebate. In addition support for a custom rebate would include a benefit/cost (b/c) calculation sheet.

Technical assistance in the form of an audit is offered to the C&I customer interested in participating in the program. Three random sampled invoice payments were reviewed by PUC Audit. All were paid to Demand Management Institute which provided engineering studies for energy efficiency projects to C&I customers of PSNH. Customer audits charged to C&I New Construction totaled $75,600 and is included in the above number.

C&I Rebates and Definition of a *Customer*

In order to manage the overall budget and to help achieve an equitable distribution of program funds, PSNH proposed the following annual caps on the level of incentives offered to any individual customer: Rebates on New Construction has an Annual Cap that varies based on customer billing classification; New Construction caps for Rate G customers is $50,000; Rate GV customers $100,000; Rate LG customers $150,000.

PSNH's tariff (PSNH Electric Delivery Service Tariff-NHPUC No. 6, 7/3/07, definitions page 7) defines a customer as "(a)ny person, firm, corporation, cooperative marketing association, utility or government unit or sub-division of a municipality or of the state or nation supplied with Delivery Service by the Company. Each Delivery Service account shall be considered a separate and distinct customer." PSNH ELECTRICITY DELIVERY SERVICE TARIFF-NHPUC NO. 6, July 3, 2007, Definitions, page 7.

Audit's review led to difficulty understanding the level of incentives offered to any <u>individual customer</u>. As an example:

PSNH paid three C&I New Construction custom rebates totaling $167,357 to one business customer. As these payments were to the same address, and appear to be above the cap, Audit asked for an explanation. Per PSNH *"the incentives paid were within the approved caps. The customer had* ***several accounts****. One account is an LG account. This is the account where the equipment for the $150,000 rebate was installed. Another account is a GV account. This is where the equipment for the 3 other rebates (totaling $17,357) were installed."* Based on the PSNH response Audit assumes that this <u>customer</u> with two GV meters and one LG meter <u>(3 accounts)</u> can receive C&I New Construction rebates capped at $350,000 per year.

PSNH stated that they have one customer with five GV Delivery Service accounts and, as such, qualifies for C&I New Construction rebates capped at $750,000 per year (5 * $150,000).

Audit also learned that **Large C&I customers may participate in three PSNH rebate programs:**

1. C&I New Equipment & Construction.
2. Large C & I Retrofit
3. C&I RFP

As there were many PSNH C&I rebates, Audit expanded their review. Audit reviewed seven large C&I New Construction rebates of which the following one was found to be problematic.

Audit reviewed an LG rated customer that received five PSNH rebates totaling $167,619 for C&I New Construction in 2008. Several prescriptive rebates were given as well as one large custom rebate. Audit's review of support for this project determined that the rebate cap was $150,000 and PSNH overpaid this by $17,619. **Audit Issue #4**

<u>Large C&I Retrofit, $2,238,542</u>

Total rebates for the year amounted to $1,836,340 and customer audits totaled $402,202. This program offers prescriptive and custom rebates. The program targets large customers operating aging, inefficient equipment and systems. PSNH rebates are subject to caps based on customer classification.

Technical assistance (audit) is offered to those customers choosing to participate in the program. Invoices for customer audits charged to the Large C&I Retrofit program totaled $402,202 and is included in the above number.

Audit noted that there were a few Large C&I Retrofit rebates that went to customers that also received C&I New Construction rebates. Audit's understanding is that these programs are independent of one another. Therefore we took no exception for companies collecting more than one rebate.

Audit noted some 2008 rebate payments for completed projects at the end of year 2007. Audit understands that this can occur due to the approval process before checks are sent.

Audit reviewed several Large C&I Retrofit rebates concentrating on the customer classification and program rebate cap. The following issue was noted:

The sum of ten Large C&I Retrofit rebates were paid by PSNH to a certain school system in 2008. The total was $73,465. The rebates were for projects completed at four different schools in the city. As a GV rated customer of PSNH the cap is $50,000 plus $5,000 for each GWH above 1 GWH.

Per the response from PSNH, *"three accounts received a total of $5,270, well below the cap for these accounts; however, a total of $68,195 was paid for five projects completed to another account. Annual usage for this fourth account was 2,357,260kWh and the calculated Incentive Cap was $56,785 ($50,000 + $5,000 x 1.357; PSNH has consistently given customers credit for all kWhs above 1 GWH in determining the "adder" to the Annual Cap.) As noted above there were five incentives paid on this account in 2008 totaling $68,195 -- $11,410 above the calculated cap. One of these rebates was for $16,760 and was for a project actually completed on October 19, 2007. Due to a clerical error on PSNH's part, the rebate did not get paid in 2007 as normally would have been the case. When the error was discovered, the 2007 books were closed and we believed the most appropriate course of action was to honor the 2007 rebate offer and pay it in 2008, knowing that it would exceed the customer rebate cap by $11,410."*
Audit Issue # 4

Small C&I Retrofit, $1,429,053

This program offers prescriptive and custom rebates. The total represents $1,425,439 in rebates paid to customers and $3,615 in customer audits. PSNH rebates are subject to annual caps based on customer classification. Rebates for Small C&I were for new construction as well as retrofits.

Technical engineering assistance (audits) was offered to customers. The total PSNH engineering charged to Small C&I Retrofit programs was $3,615.

Audit reviewed one $50,000 Small C&I custom rebate that was paid by PSNH to a town library for new construction consisting of two electric boilers and a geothermal heat pump. Support showed a project benefit/cost ratio of 1.65.

Audit reviewed several other rebates to see what the customer classification was and verified that the payment was not above the cap. No exceptions were noted.

While reviewing the Small C&I Retrofit rebates Audit noted one geothermal heating system project that contained a benefit/cost sheet with a ratio of .82. When asked about the ratio, PSNH stated that it does not believe there is a requirement that every project must meet a B/C ratio of at least 1.0. If this were a requirement, the result would be some customer classes that would be ineligible for a rebate due to low operating hours (churches, some school projects, some nonprofit organizations, etc.). PSNH noted that in addition to a project's dollars and cents numbers, intangible benefits sometimes enter into the decision making process. The specific instance noted here involved an environment center open to the public. One of the primary missions of the center is environmental education and the geothermal heating system is a core element of their education program.

PSNH indicated that projects with a B/C ratio less than 1.0 can negatively impact overall program performance, and that they must be offset with higher B/C projects. PSNH noted that the overall benefit/cost ratios for both residential and the commercial/industrial <u>sectors</u> must exceed the minimum threshold of 1.0 in order to earn the associated shareholder incentive.

<u>Other PSNH C&I Programs-Utility Specific, $614,659</u>

Education Program, $154,392

Audit reviewed several invoices from GDS Associates, Inc. and Wilson Education. GDS provides engineering and consultants for the NH Energy Code Workshop trainings. Their invoices also include facility and food costs. Wilson Education charges are for grants for Savings Through Energy Management (STEM) program. These programs are conducted at schools around the state.

C&I RFP Pilot Program, $439,307

This PSNH program did not have a cap. The minimum customer size requirement however, is 350 kW of demand. Audit reviewed several large payments and verified if customer was a minimum size of 350kw demand.

Another requirement was that the minimum total project cost be $200,000. Audit noted a customer that received a rebate of $80,633 or 50% of cost without spending the minimum. When questioned, PSNH stated that the customer qualified with an original project cost of $343,384. During the year, the customer determined that it did not have the resources to complete the other two projects in 2008. The company proceeded with a lighting project at a cost of $161,265. Per PSNH, Item 5 of the "Energy Efficiency

Services Letter of Agreement" says that **the Customer is not obligated to install the measure and may decide to forego the listed incentive payment.**

Audit reviewed support for another C&I RFP Pilot Program rebate for 2008 for which the project cost was not $200,000. However, per PSNH *"the company actually spent $222,520 on the RFP project between 2007 and 2008. The project was originally approved in November 2007, but only part of the project was done in 2007. The remaining measures had products that required longer lead times and the company was unable to finish everything in 2007, so we agreed to carry them into 2008."*

Customer Partnerships, $20,960

Audit reviewed two charges pertaining to Customer Partnerships. An invoice for $6,528 contained support showing it was for *"upgrade blower accessories."* Per PSNH this was needed for class instruction.

Another charge of $5,882 was an allocation for sponsorship in Northeast Energy Efficiency Programs (NEEP). Audit found that $4,901 from this NEEP invoice was also charged to Energy Star Appliance and $3,431 was charged to Large C&I Retrofit.

Smart Start for Municipalities

This program is a self-funded revolving loan fund used by participating municipalities to purchase energy efficiency measures. The basis of the program is to allow the municipalities to offset the cost of the purchase by loaning the required funds, with the energy savings at least equal to the repayment cost on an average monthly basis. $1,060 Internal Administrative expenses for Commercial & Industrial. As identified earlier, the 6% shareholder incentive was listed as a Rebate on Schedule H. Refer to Audit Issue #2.

Balance Sheet Reconciliation

Audit reviewed the 12/31/2008 balance sheet reconciliation of the Conservation and Load Management, account 229P9 and noted several reconciling items. The model used by Accounting to track income and expenses relating to the EE program reflected a year end balance of:

Model Balance	($2,290,433)
GL 229P9 Balance	($4,616,102)
Difference	$ 2,325,665

The variance was identified on the reconciliation to be comprised of:

($11,106)	December interest posted in January
$ 21,796	Interest adjustment due to SHI true-up
$495,985	Model reflected the 8% SHI $1,113,964 but what had actually been booked was $617,979. The $495,985 is the difference between the two.
$185,070	RSA 125-O:5 2% remaining of 2006 SBC revenue $14,453,832
$292,915	RSA 125-O:5 2% of 2007 SBC revenue $14,645,767
$286,954	RSA 125-O:5 2% of 2008 SBC revenue $14,347,714
$1,054,051	ODR Credits reported in the GL but separate from C&LM (this includes the balance from 2007 $251,513 plus the revenue received in 2008 of $802,538)

Audit requested copies of the reports required by RSA 125-O:5, specifically "*in any year the PSNH utilizes SBC funds, PSNH shall submit a report to the public utilities commission and the department (of Environmental Services) detailing how these funds were utilized and will make the report available to interested parties…*" The response provided to Audit's question was "*PSNH has not completed these reports. The law was passed on July 1, 2002 and PSNH began to accumulate funds under the provisions of this law in 2003. However, it was not until 2006 that the first project was completed necessitating that a report be filed. PSNH is aware that reports for projects completed in 2006, 2007, and 2008 are past due and is working to complete them.*" **Audit Issue #5.**

Senate Bill 228

As noted in the filing, during 2006 the bill authorized a transfer of funds from the energy efficiency program to the special winter electric assistance program (SWEAP). The transfer was recoverable through a reduction of the EE budgets in equal amounts over three years, beginning with the 2007 EE budget.

PSNH and the NHEC, as authorized by SB228, transferred funds from EE to the SWEAP. PSNH transferred $2,805,231 and has reduced its EE budgets in the years 2007, 2008, and 2009 by $935,077. The NHEC transferred $258,336 and has reduced its EE budgets in 2007, 2008, and 2009 by $86,112.

Audit Issue #1

Interest and Commission Order 24,815

Background

PSNH utilizes a "model" to track the revenue and expenses associated with the entire energy efficiency program on an ongoing basis. The net monthly activity has interest calculated on it, and adds to the running balance as a funding source if the revenue for the month was higher than expenses, or reduces the balance if the revenues were less than expenses.

Issue

Commission Order 24,815 required that the net activity from the Forward Capacity Market be included in the energy efficiency programs. Audit verified that the FCM/ODR expenses were properly included in the expense portion of the monthly calculation on the model, but the revenue is not included.

Revenue for 2008 was $802,537. Audit discussed the under-funding with the Company, and the interest on the FCM revenue was calculated for 2008 to be $13,572.

Recommendation

PSNH should include both the revenue and expenses associated with the FCM, in compliance with Commission Order 24,815, into the CORE fund. By so complying in this manner, the interest will be calculated inclusive of the net FCM.

Company Comment

Since inception of the CORE programs, PSNH has paid interest on any collected but unspent System Benefits charge funds. This is based on the principle that the interest pays back customers for the use of their funds, not unlike paying interest on customer deposits.

The FCM revenues are fundamentally different from SBC funds. In effect they are payments made by a vendor (ISO-NE) in exchange for a product (capacity reductions). Commission Order 24,815 states on page 16 that "it is appropriate to contribute any payments received by the utilities for CORE program peak load reduction back to the CORE programs"-and PSNH is returning the net of the FCM revenues and expenses back to the CORE programs as provided for in the Order. However, the Order is silent on the issue of interest payments. PSNH believes it is in full compliance with the Order and that applying interest to payments received from vendors would be inappropriate and would unnecessarily increase costs to all customers in order to make the interest payments.

During our review of this Issue, the Company noted that the FCM expenses were being netted against SBC revenues rather than FCM revenues. The impact is to reduce the unspent SBC balance which in turn reduces the amount of interest applied. The Company proposes that an adjustment be made to account for any interest underpayments, and that going forward, FCM expenses be netted against FCM revenues. As noted above, it is the Company's position that these net FCM revenues should then be added to the energy efficiency fund without interest.

Audit Comment

Audit understands PSNH's comment but notes that the revenue from the FCM is the only "vendor" transaction ordered to be included with the CORE program. Therefore, the fund should simply reflect all revenues and expenses, the net activity of which should have the interest calculated.

Audit Issue #2

Incentive included in Expenses

Background

In compliance with Commission Order 23,851, PSNH calculated 6% of the SmartStart loaned funds and recorded the 6% as shareholder incentive.

Issue

The $35,477 is listed on the PSNH grid (Schedule H) in the Rebates and Services column.

Recommendation

The SmartStart shareholder incentive is not a rebate, and should not be listed as such within the context of the Schedule H, on which the overall EE shareholder incentive is calculated.

Company Comment

The PSNH agrees with this recommendation and will no longer include the SmartStart shareholder incentive in Schedule H. The Company will continue to include the SmartStart shareholder incentive in its quarterly SmartStart report as provided for in commission Order Nos. 23,851 and 24,417.

Audit Comment

Order 23,851 authorized the recovery of a shareholder incentive of 6% based upon the repayment of loaned funds, and directed that any employees who were financially rewarded for their work in this particular program would have that financial reward funded by the incentive payment, not by base rate revenues. Order 24,417 approved the ongoing (SmartStart) program (formerly Pay-as-You-Save). The Order also directed the utilities to "amend their quarterly reports" consistent with the terms of the order. These references are appreciated, and Audit concurs that PSNH should continue to follow the requirements contained therein. Audit also concurs with the Comment relating to the exclusion of the incentive on the reported Rebate portion of Schedule H.

Audit Issue #3

Overpayments of SO2 Invoices

Background

PSNH reported total Home Energy Assistance (HEA) rebates and services of \$2,273,589. This amount includes PSNH payments to CAAs. In 2008 PSNH was directed to supplement HEA funding with proceeds from S02 auction allowances. Audit's review of the CAAs invoices for S02 noted double payments for participants totaling \$5,655.

Issue

PSNH admits on their response to audit request #051 that overpayments did happen on several S02 funding invoices during the 2008 program year and that the double payments were caught and identified when reconciling program numbers at the end of year.

Recommendation

All overpayments for SO2 invoicing must be reconciled and overpayments returned by the Community Action Agencies to PSNH. PSNH then must reimburse the Energy Efficiency fund.

PUC Audit has adjusted the HEA Rebates & Services amount reported by PSNH. The corrected total is \$2,267,934.

Company Comment

PSNH agrees with and is in the process of implementing this recommendation. Specifically, the Community Action Agencies are in agreement with the overpayment amount and have agreed to return the funds which will then be used to reimburse the Energy Efficiency fund.

Audit Comment

An adjustment has been made on the Audited grid of this report. (See page 6, HEA2008) Audit further concurs with the corrective action noted above by PSNH.

Audit Issue #4

PSNH Rebate Overpayments

Background

The C&I New Construction Program shows a PSNH 2008 rebate payment to a LG rated customer of $167,619.

A school system that is a GV rated customer of PSNH obtained several rebates reported as Large C&I Retrofit Program. A total of $68,195 was paid for five projects. The Incentive Cap for the five projects was calculated to be $56,785.

Issue

Per the 2008 Core NH Energy Efficiency Programs, DE 07-106, revised February 29, 2008, page 32, it states that PSNH proposes a New Construction Annual Cap of $150,000 for an LG customer. This customer therefore received $17,619 more than the Cap for New C&I.

Per the 2008 Core NH Energy Efficiency Programs, DE 07-106, revised February 29, 2008, page 32 it states that PSNH proposes a Retrofit Program Annual Cap of $50,000 plus $5,000 for each GWH above 1 GWH for Rate GV customers. This customer therefore received $11,410 more than the Cap for Retrofit Program.

Recommendation

PSNH needs to credit the Core Energy Efficiency fund and charge account 426.3, Penalties in 2009 for the above overpayments of the Incentive Cap totaling $29,029 made in year 2008.

Company Comment

From the time the CORE Programs were introduced in 2002, PSNH believed it was important to strike a balance between providing support to customers with large energy efficiency projects and reaching as many customers as possible. To this end the Company initiated and voluntarily implemented incentive caps for all of the CORE business programs. To this date, PSNH is the only utility to have filed incentive caps.

While PSNH strives to implement the CORE Programs without mistakes, the Company did exceed the incentive caps in the instances noted above. The first case involved five separate rebates paid to a large industrial customer at different times throughout the course of the year. Determining the total amount paid to a particular customer in a given year is a manual process with the potential for error. The second case involved five projects completed by a school district. One of the projects was actually completed in 2007, but due to an invoicing problem, the $16,760 rebate for this 2007 project was not paid until 2008. Had this rebate been paid on time, the 2008 incentive cap would not have been exceeded (nor would have the 2007 cap been exceeded). Alternatively, the cap could have been honored by denying one or more of the four 2008 projects. However, it was PSNH's assessment that the best course of action in this case was to honor the rebate commitments for all five projects.

As noted above, the caps were instituted not as an end in themselves, but as a means of striking a balance between serving as many customers as possible and having a disproportionate share of the SBC dollars go to just a few customers. While it's clear that the stated incentive caps were exceeded, PSNH does not believe that SBC dollars were disproportionately directed to only a few customers. In fact, the number of large business customers actually served in 2008 was 339 – 55 more than budgeted for in the approved CORE Programs filing. Furthermore, 100% of the SBC funds were used for their intended purpose: to save energy. Reviewing the energy savings goal reveals that in 2008, PSNH exceeded its energy savings goal for large customers by 40%.

This audit focused only on 2008 activities. However, when this Audit Issue was brought to the Company's attention, we felt it was important to understand the full magnitude of the problem. Accordingly, we undertook a complete review of every rebate made to large business customers from inception of the CORE Programs. Since June 2002, we have processed 2,220 large customer rebates totaling $21.4 million. Of these 2,220 rebates, there were five instances where the incentive caps were exceeded (including the two noted in this Audit Issue). All but one of these cases involved customers who received multiple rebates in the same year and projects that were carried over from the previous year due to problems at year-end. PSNH's conclusion from this review is that there is room for improvement; but cases in which the incentive caps have been exceeded are infrequent.

In summary, PSNH does not believe that its performance in administering the CORE Programs warrants a fine or penalty. PSNH requests the Audit Staff to reconsider this recommendation and suggests that the following remedies to be more appropriate:

- ❑ Improve internal program controls so that management and program administrators would be alerted to situations which could lead to the incentive caps being exceeded in any given year.

- ❑ Clarify in future filings that the incentive caps are not intractable limits, but guidelines designed to strike a balance between providing support to customers with large energy efficiency projects and reaching as many customers as possible.

Audit Comment

Audit appreciates the above PSNH comments. Audit believes that in filing its 2008 Core NH Energy Efficiency Programs, DE 07-106, PSNH agreed to and was consequently approved by the Commission to the Annual Caps shown on page 32. Their 2008 filing states *"In order to manage the overall budget and to **help achieve an equitable distribution of program funds** PSNH proposes the following annual caps on the level of incentives offered to any individual customer".*

Final analysis by Audit found that three of the four Utilities maintained Caps during the test year. Audit reviewed each Utility to see that they did not exceed their Cap. PSNH exceeded their Cap on two separate occasions; therefore Audit recommends that PSNH reimburse the SBC fund the sum of $29,029 for their admitted errors. PSNH may charge FERC account **426.5, Other Deductions.**

Audit Issue #5

Violation of RSA 125-O:5

Background

The New Hampshire Legislature drafted a bill which was signed into law effective July 1, 2002 authorizing PSNH to *"utilize SBC funds equivalent to the unencumbered amount, if any, rolled over from the prior program year for energy efficiency projects at facilities owned by PSNH, provided that the company made a good faith effort in the prior program year to meet the goals approved by the public utilities commission for its core energy efficiency programs, and provided that the SBC funds used by PSNH shall not exceed 2 percent of all SBC funds collected in the prior program year...In any year that PSNH utilizes SBC funds, PSNH <u>shall</u> submit a report to the public utilities commission and the department detailing how these funds were utilized, and will make the report available to interested parties."*
(emphasis added)

Issue

According to PSNH, the Company began to "accumulate" the funds in 2003, and completed the first project in 2006.

Audit does not know the total amount of unencumbered funds and/or the 2% of the SBC retained from 2003 forward. Information provided in reconciliation indicates that for the years 2006, 2007, and 2008 2% of the SBC was withheld for PSNH allocated projects.

The statutory requirement to provide reports of the fund utilization to both the PUC and the DES has not been met.

Recommendation

PSNH must comply with the statute, or face enforcement described in RSA 125-O:7 which includes, among other penalties, injunction issued by the superior court, forfeiture of not more than $25,000 for each violation, and administrative fines not to exceed $2,000 for each offense, without precluding further penalties. (Refer to RSA 125-O:7, I RSA 125-O:7, II, and RSA 125-O:7, III.)

The statute also states that "any party may request that the public utilities commission schedule a hearing to review these reports and the expenditure by PSNH of rolled over SBC funds at its facilities." (Refer to RSA 125-O:5)

Company Comment

PSNH agrees that is must comply with RSA 125-O:5. On or before September 30, 2009, the Company will submit its report to the Public Utilities Commission and the

Department of Environmental Services detailing how these funds were utilized and will make the report available to interested parties.

Audit Comment

Audit reiterates the issue and recommendation above, and requests that a copy of the completed report, along with the names and titles of those people at the NHPUC and NHDES to whom the report is used, be provided to Audit.

NOTE: Audit was provided with a copy of a report dated September 30, 2009, addressed to Debra Howland at the NH PUC. Beginning in 2003 through 2008, the Company has retained the 2% of SBC, which amounted to $1,824,320. The report details that as of the end of 2008, the projects completed summed to $1,059,382. Thus, as of 12/31/2008, PSNH has yet to spend $764,938 of the 2% funds deducted from the SBC.

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.

<u>Calculation of Interest</u>

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.

Rebates/Services

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:

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

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.

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

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.

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

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

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

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.

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

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

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

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.

<u>Residential Geothermal, code #26-42; $5,000</u>

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.

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

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.*

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

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.

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

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 install a custom lighting project which included products not available for prescriptive rebates through the Small C&I Retrofit Program. 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.

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

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.

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

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.

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

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.

Total Rebates/Services

Total actual costs reported as Rebates/Services for the Unitil Core Energy Efficiency Programs for 2008 were **$1,027,599.** 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.

Appendix B

Data Requests Referred to in the Testimony of James J. Cunningham Jr.:

1. PSNH and UES Response to Staff 1-1
2. PSNH Response to Staff 1-10
3. Joint Utility Response to Staff 1-19
4. Joint Utility Response to Staff 1-41

Public Service Company of New Hampshire
Docket No. DE 09-170

Data Request STAFF-01

Dated: 10/19/2009
Q-STAFF-001
Page 1 of 1

Witness: Thomas R. Belair
Request from: New Hampshire Public Utilities Commission Staff

Question:
Reference Filing at page 10. With respect to PSNH's and UES' 2009 fuel-neutral HES Pilot Program, please provide a break down of the participants by dwelling size less than (1) 1,000 square feet, (2) 1,500 square feet, (3) 2,000 square feet, (4) 2,500 square feet, (5) 3,000 square feet, (6) 4,000 square feet and greater than 4,000 square feet. With respect to the traditional HES electric heat program, please provide this same information for the past 4 years (2006 to 2009 to date).

Response:
As of October 23, 2009 PSNH had 107 fuel neutral Home Energy Solutions Program projects in various stages of completion, and the numbers are listed in the Year row labeled "2009 Pilot".

For the other 2006-2009 PSNH Home Energy Solutions Program projects, we do not have complete records of square footage. The size of the home is entered into the TREAT modeling software which is installed locally on the auditors personal computers. For about 20% of the projects, the auditor also made direct entries of the square footage into our reporting system, and that data is reported in the table below in the Year rows labeled "2006", "2007", "2008", and "2009".

For Unitil, this information is not readily available but the Company will supply the requested information separately.

Home Energy Solutions projects by size (square footage)

Year	< 1,000	1,000-1,499	1,500-1,999	2,000-2,499	2,500-2,999	3,000-3,999	> 4,000	Total Qty
2006	263	6	6	1	0	1	1	278
2007	107	13	63	4	1	1	2	191
2008	5	14	22	17	5	5	4	72
2009	17	41	23	18	4	2	3	108
2009 Pilot	5	39	22	21	9	6	5	107

(PSNH and UES Response)

Public Service Company of New Hampshire
Docket No. DE 09-170

Data Request STAFF-01

Dated: 10/19/2009
Q-STAFF-010
Page 1 of 1

Witness: Thomas R. Belair
Request from: New Hampshire Public Utilities Commission Staff

Question:
Reference CORE filing at page 78. In the original 2009 CORE filing, PSNH proposed 650 participants (p. 80). Of this total, 435 were fuel blind pilot customers (DE 08-120 Hearing Exhibit No. 4) and 215 were traditional HES electric heating customers. In the revised proposal, dated June 30, 2009, PSNH proposed 1,315 participants (Attachment F, page 1 of 4). Of this total, 200 were fuel blind pilot customers and 1,115 were traditional HES electric heating customers. Please explain the reasons for the significant increase in traditional HES electric heating customers from 215 to 1,115.

Response:
PSNH continued trying to get electric heat customers in the program. Working with the 7 auditing companies, at that time, we were able to enroll:

- 175 single family electric heat customers,
- 110 multi-family electric heat customers, and
- 848 multi-family gas heated homes where work is being done in collaboration with the gas company. The work paid for by PSNH is for electric measures, including CFLs and lighting fixtures. The gas company will be paying for the gas saving measures.

The significant increase in "traditional" HES customers was not due to electric heat customers. In the case of the 848 multi-family gas heated units, 76% of the 1,115 units, the HES program is only paying for lighting measures. The gas company is paying for gas savings measures. These multi-family projects are being done as the result of successful collaboration between the electric and gas companies.

(PSNH Response)

Public Service Company of New Hampshire
Docket No. DE 09-170

Data Request STAFF-01

Dated: 10/19/2009
Q-STAFF-019
Page 1 of 1

Witness: Thomas R. Belair
Request from: New Hampshire Public Utilities Commission Staff

Question:
Reference filing at page 5, Table 1.2 and page 35. For each company, please provide the carry forward balance from 2008 (p. 35) that is incorporated in the derivation of these budget amounts.

Response:
NGRID: -$238,130
NHEC: $0
PSNH: -$31,574
UES: (This information be supplied separately.)

(Joint Utility Response)

Public Service Company of New Hampshire
Docket No. DE 09-170

Data Request STAFF-01

Dated: 10/19/2009
Q-STAFF-041
Page 1 of 1

Witness: Thomas R. Belair
Request from: New Hampshire Public Utilities Commission Staff

Question:
Filing at page 6 and 91. With respect to the RGGI funded expansion of the CORE programs, please explain how the companies are allocating common costs to RGGI v. CORE programs.

Response:
The utilities plan to directly charge to either CORE or RGGI program activities. The intent of the RGGI funded expansion is to simply use the existing infrastructure and serve more customers. The incentives funded by RGGI will be charged to RGGI. To the extent other costs are for these RGGI funded projects, they will be directly charged.

(Joint Utility Response)

Appendix C

Proposal of The Way Home for the 2010 Low Income Home Energy Assistance Budget

Submitted by:
New Hampshire Legal Assistance Attorney for The Way Home

May 13, 2009

State of New Hampshire
Public Utilities Commission

DE 08-120

2009 Statewide CORE Electric Energy Efficiency Programs

Proposal Of The Way Home
For The 2010 Low Income
Home Energy Assistance Budget

Submitted by
New Hampshire Legal Assistance
Attorney for
The Way Home

May 13, 2009

I. Background.

On April 13, 2009 a subgroup of the parties to CORE Docket DE 08-120 met at the Public Utilities Commission Offices to discuss a mechanism for calculating the low income Home Energy Assistance (HEA) budget for Program Year 2010 and going forward. The goal of the meeting was to attempt to reach consensus or identify alternative proposals to present to all of the parties at the Quarterly Meeting in DE 08-120 scheduled for June 8, 2009. The ultimate goal is to enable the Electric Utilities to prepare a consensus low income HEA budget for their 2010 CORE filing.

At the April 13th meeting New Hampshire Legal Assistance presented an oral proposal on behalf of The Way Home for the 2010 HEA budget. The proposal was to set the HEA budget at 14% of the total statewide CORE budget for PY 2010.

All parties present at the meeting, with the exception of Staff, appeared to be agreeable to the proposal for PY 2010 only. Staff's position appears to be that 14% is too high. Staff's position is set forth, in part, in an email dated April 14, 2009. NHLA agreed to present a written response to Staff as well as a more detailed explanation of the April 13 Proposal of The Way Home. The following is the formal Proposal of The Way Home. The Proposal includes a response to Staff's position.

II. The Way Home Proposal and Response To Staff Position.

A. The Low Income Need for Energy Efficiency Services.

According to U.S. Census Bureau data for New Hampshire for 2007, there were over 95,000 low income households at 185% of the Federal Poverty Guidelines. (See Appendix 2 to the Low Income Needs Assessment Report attached as Attachment A, Appendix B to the Settlement Agreement filed on December 11, 2008 in DE 08-120.)

According to 2008 U.S. Census Bureau data, 17% of New Hampshire's population and over 19% of New Hampshire's households are below 200% of the Federal Poverty Guidelines. (See attached U.S. Census Bureau chart entitled "CPS Data Collected in Year 2008, Persons in Poverty Universe, Percentages by Income-to-Poverty Ratio.")

According to Appendix 1 to the above 2008 Low Income Needs Assessment Report, approximately 8,500 low income households have been served by the NH CORE HEA program and/or the DOE Weatherization program from 1998 to December 31, 2007. This leaves 87,000 low income households (at 185% of poverty) still needing energy efficiency services. (See page 2 of the above Low Income Needs Assessment Report.) It should be noted that 87,000 probably understates the need since HEA eligibility guidelines are now at 200% of the Federal Poverty Guidelines as mandated by the American Recovery And Reinvestment Act of 2009, P.L. 111-005, section 407(a).

The "Additional Opportunities for Energy Efficiency in New Hampshire Final Report, January 2009," prepared for the Commission by GDS Associates, Inc., states at page 129 that, based on testimony of PSNH in the CORE hearings in DE 08-120, there are over 16,000 households on the waiting list for the HEA program, and that "therefore there remains substantial demand for this program for the foreseeable future." Indeed, there are over 30,000 low income households who participate in the low income Electric Assistance Program (EAP) and over 6,000 low income households who are on the EAP waiting list. Many of these low income households may be eligible for energy efficiency services. (See attached EAP enrollment report dated May 11, 2009.)

In order to serve all remaining low income households (at 185% of the Federal Poverty Guidelines) total funding needed for the HEA program is estimated to be $300

Million. This is based on a job average of $3,413 for 87,000 households. (See Low Income Needs Assessment Report, page 3.)

At the maximum CAP production level it is estimated that it would take over 36 years to serve the remaining low income population (Low Income Needs Assessment Report, page 3). In light of the above, the Electric Utilities have determined that:

> No market transition strategy is recommended at this time based on the significant need for these services in this state and the relatively small number who can be served in any given year due to budget constraints. This is consistent with the recommendation of the Energy Efficiency Working Group.

See Electric Energy Efficiency 2009 CORE filing, DE 08-120, dated October 7, 2008, revised November 10, 2008, page 21. See also Final Report of the Energy Efficiency Working Group, July 6, 1999, in DR 96-150, which states:

> In light of both the significant undesirable market conditions that exist and are expected to persist for low income customers and the fact that at 2,500 participants per year only half of the estimated eligible households could be reached in a decade, the Group does not recommend that a market exit strategy be developed for the low income residential subsector at this time.

Final Report, page A 34.

B. Recent Low Income HEA Budget Allocations.

According to information provided by the Electric Utilities in data responses in the previous CORE docket, the Electric Utilities have individually budgeted between 5% and 15% of their respective statewide budgets for the low income HEA program since 2004. See Unitil Response UES IR2, Table, in DE 07-106.

For the 2009 Program Year the parties and Staff agreed that the Electric Utilities would all allocate 13.5% of their total budgets to the HEA program. (This agreement is not considered as precedent for any future program year.) See Settlement Agreement in

DE 08-120, dated December 10, 2009, Section II E, and Order No. 24,930 in DE 08-120, pages 9, 10, 19, 23.

C. <u>The Way Home Proposal For the 2010 Program Year.</u>

The Way Home recommended that 14% of the total statewide CORE budget be allocated to the 2010 HEA program. This percentage allocation would not be precedent for future budgets.

The Way Home pointed out that 14% is well below the 17% to 19% income to poverty ratio in 2007 as set forth in the U.S. Census Bureau Chart "CPS Data Collected in Year: 2008, Persons in Poverty Universe, Percentages by Income-to-Poverty Ratio" (copy attached).

The Way Home suggests that the modest step increase to 14% of total budget is a reasonable and incremental approach to providing the low income population with an equitable allocation of the total statewide budget. This equitable share is in keeping with the restructuring statute mandate that "Restructuring of the electric utility industry should be implemented in a manner that benefits all consumers equitably and does not benefit one customer class to the detriment of another." RSA 374-F:3, VI.

The Way Home also pointed out that a modest increase in the HEA budget recognizes increasing costs that significantly impacted the HEA budget in 2008 and the ability of the HEA program to address the low income need. <u>See</u> Order No. 24,930 in DE 08-120, page 10 ("The Settlement Agreement noted that, due to an increase in costs for weatherization materials, resulting in a higher job costs average, fewer homes will be able to be served in 2009 than in 2008, even with an increased budget.")

D. Funding Contribution.

Staff proposed that the HEA allocation percent should be applied to the Residential Sector budget amount, not the combined Residential Sector and C & I Sector budget amount. (See Staff email dated April 14, 2009 from Jim Cunningham to the members of the HEA budget subgroup.)

Staff's position is contrary to Commission Orders and the history of the HEA program. In discussing the funding for the newly approved low income bill assistance program, the Commission stated:

> . . .we do not find it appropriate to establish a distribution-specific systems benefit charge as some parties have suggested, nor will we limit the charge to residential customers. We do not find it appropriate to fund a low income assistance program through the application of a systems benefit charge to residential customers only. As commercial and industrial customers receive as much benefit from the positive tax impacts of a low income assistance program as other rate classes, we find it in the public good to require funding of the program across all franchises and all rate classes. All customers shall contribute at the same rate, irrespective of their distribution company or rate class. The systems benefit charge shall be established, after notice and hearing, as a flat amount per kilowatt hour used and applied equally to all customers.

Restructuring New Hampshire's Electric Utility Industry: Final Plan, DR 96-150, February 28, 1997, page 97.

The Final Report of the Energy Efficiency Working Group, July 6, 1999, in DR 96-150, stated:

> . . .equity among customer groups is one of the many important factors to consider in the context of energy policy goals. The Group also agreed to stipulate that "as set forth in the statute, all customers should pay the SBC and be eligible for participating in programs." The Group also agreed that energy efficiency program funds should be allocated to the residential and C/I sectors in approximate proportion to their contributions to the fund. However, the Group agreed that low-income programs should be funded by all customers.

Report to the New Hampshire Public Utilities Commission On Ratepayer-Funded Energy Efficiency Issues in New Hampshire, DR 96-150, From the New Hampshire Energy Efficiency Working Group, July 6, 1999, page 19.

In Order No. 23,574 dated November 1, 2000, in DR 96-150, the Commission stated:

> The Working Group has recommended that the energy efficiency charge be paid by all customers. That recommendation is consistent with RSA 374-F:3, VI, which authorizes the imposition of a non-bypassable and competitively neutral system benefits charge to fund, among other things, energy efficiency programs. Accordingly, we accept the Working Group's recommendation.

Order, page 24.

Similarly, in approving the gas energy efficiency programs of Energy North Natural Gas, Inc. and Northern Utilities, Inc. in DG 02-106 in 2002, the Commission found the Companies' respective Plans, as well as the Settlement Agreement entered into between the Staff and Parties in that case, "to be reasonable and in the public interest". Order No. 24,109, dated December 31, 2002. 87 NH PUC 892, 901 (2002) The Settlement Agreement, which was approved by the Commission, included the following, at Section G, with respect to program funding:

> The gas utilities will be entitled to cost recovery for all prudent internal and external costs incurred related to their energy efficiency programs. . . These costs will be subject to annual reconciliation and recovery as approved by the Commission. As an exception, costs associated with the residential Low Income Program will be recovered from all firm customers since benefits from the low income program can be ascribed to all customer classes. Costs associated with Residential, C & I, and multi-family program costs will be recovered on a sector-specific basis.

87 NH PUC at 896, 897.

Nowhere in any Commission Order approving either gas or electric energy efficiency programs since these programs began in 2002 has the Commission suggested that funding for the low income energy efficiency programs be limited to the Residential Sector budget amount. (See Order No. 24,930, dated January 5, 2009 in DE 08-120, at page 18, citing the Commission's Orders in all of the prior CORE dockets.) Indeed, Staff points to no statutory provision or Commission ruling that would justify such an about face in the funding (and resulting reduced capacity) of the low income energy efficiency program.

The Commission has stated unequivocally that:

> The applicable policy principles for the CORE programs remain unchanged. Given the success of these programs since their advent in 2002, it is appropriate, and consistent with the public interest, to maintain the basic approach to the use of SBC energy efficiency funds established in prior Commission orders. . .
>
> . . .The 2009 CORE Program will benefit all customers in the form of both electric load reduction and environmental pollution reduction. We therefore find the Settlement and the amended 2009 CORE Program to be in the public interest.

Order No. 24,930 dated January 5, 2009 in DE 08-120, pages 18, 19.

III. Conclusion.

The low income HEA program is a cost effective program that has enabled many low income customers "to manage and afford essential electricity requirements" pursuant to RSA 374-F:3, V (a). The need for low income energy efficiency services is substantial. The Electric Utilities, parties, and the Commission have historically been strongly supportive of the HEA program. This is not the time to take a step backwards in addressing the low income need.

Low income customers face the insurmountable market barrier of an inability to invest in energy efficiency services. Every dollar targeted to low income is an opportunity that would otherwise be lost due to this significant market barrier. Indeed, funding for the low income program should be increased, not decreased, in order to carry out the legislative mandate that

> Utility sponsored energy efficiency programs should target cost-effective opportunities that may otherwise be lost due to market barriers.

RSA 374-F:3,X.

Respectfully submitted,
The Way Home
By Its Attorney

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May 13, 2009

Attachments

U.S. Census Bureau

CPS Data Collected in Year: 2008
Persons in Poverty Universe
Percentages by Income-to-Poverty Ratio
(Sums in Whole Numbers)

NOTE: The Current Population Survey Annual Social and Economic Supplement is an annual survey of approximately 78,000 households nationwide. Therefore, use extreme caution when making inferences when the cell sizes are small.

Some CPS questions, such as income, ask about the previous year. Others, such as age, refer to the time of the survey. The column labels indicate any subject with a reference year which differs from the survey year.

State: NH	Totals		Income-to-Poverty Ratio in 2007			
			Below 200%		200% and above	
	Persons		Persons		Persons	
	Sum	PCT	Sum	PCT	Sum	PCT
Totals	1,312,281	100.0%	222,743	17.0%	1,089,537	83.0%
Household Relationship						
Householder	513,579	100.0%	99,541	19.4%	414,038	80.6%
Spouse of Householder	293,483	100.0%	26,034	8.9%	267,449	91.1%
Related Children Under 18	290,246	100.0%	48,265	16.6%	241,981	83.4%
Own Children 18 Years and Older	107,932	100.0%	8,740	8.1%	99,192	91.9%
Other Relatives 18 Years and Older	28,957	100.0%	4,589	15.8%	24,367	84.2%
Non-Relative	78,084	100.0%	35,574	45.6%	42,510	54.4%

Source: U.S. Census Bureau
Current Population Survey, Annual Social and Economic Supplement, 2008

New Hampshire Electric Assistance Program Enrollment Report

Report Detail Effective 5/11/2009

Enrollments

	Belknap-Merrimack Comm. Action	Rockingham Comm. Action	Strafford Cnty Comm. Action	Southern NH Services	Southwestern Comm. Services	TriCounty Comm. Action	Utility Total
	EAP	EAP	EAP	EAP	EAP	EAP	
Unitil Capitol	1234	0	0	0	0	0	1234
Unitil Seacoast	0	1146	0	1	0	0	1147
National Grid (GSE)	0	368	0	112	311	365	1156
NH Electric Co-op	795	287	64	0	254	1411	2811
Public Service Of NH	3496	1954	3096	9125	3001	3269	23941
CAA Total	**5525**	**3755**	**3160**	**9238**	**3566**	**5045**	**30289**

EAP Enrollment by Utility and FPG

	<= 75	<= 100	<= 125	<= 150	<= 175	> 175	Utility Total
Unitil Concord	232	229	240	239	200	94	1234
Unitil Seacoast	203	236	219	229	194	66	1147
Ngrid (GSEC)	181	231	250	245	182	67	1156
NH Elec Coop	477	549	581	540	492	172	2811
PSNH	4948	4971	4833	4420	3618	1151	23941
FPG level Total	**6041**	**6216**	**6123**	**5673**	**4686**	**1550**	**30289**
	19.9%	20.5%	20.2%	18.7%	15.5%	5.1%	100.0%

EAP Enrollment by Utility and Discount Tier

Tier	**1**	**2**	**3**	**4**	**5**	**6**	**Total**
Unitil Concord	94	200	239	240	229	232	1234
Unitil Seacoast	66	194	229	219	236	203	1147
Ngrid (GSEC)	67	182	245	250	231	181	1156
NH Elec Coop	172	492	540	581	549	477	2811
PSNH	1151	3618	4420	4833	4971	4948	23941
Tier Level Total	**1550**	**4686**	**5673**	**6123**	**6216**	**6041**	**30289**

Wait List

BMCA	1071
RCCA	1063
SNHS	2181
SWCS	592
SCCA	508
TCCA	835
TOTAL	6250

Wait List by Utility

Unitil Capitol	268
Unitil Seacoast	331
National Grid (GSE)	239
NH Electric Co-op	496
Public Service Of NH	4916
TOTAL	**6250**

Denials 10-1-08 thru 4-6-09

Total Statewid	7601

Removals since 2/6/09

3675