

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 true-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

	<u>Audited</u>	<u>Reported</u>
Total SBC Revenue	\$14,347,714	\$14,347,714
Total Interest on net EE net activity	<u>163,965</u>	<u>150,393</u>
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	<u>1,113,964</u>	<u>1,113,964</u>
Subtotal EE expenses	\$13,687,886	\$13,729,013
Net <u>2008</u> 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:

	<u>Reported</u>	<u>Verified</u>
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	<u>386,316</u>	<u>386,316</u>
Total Payments Received	\$1,054,051	\$1,054,051
	<u>Reported</u>	<u>Verified</u>
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	<u>2,252</u>	<u>2,252</u>
Total Expenses	<u>\$ 40,243</u>	<u>\$ 40,243</u>
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 Marketing 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.

Rebates & Services

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 SO₂ 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 individual customer. 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 customer with two GV meters and one LG meter (3 accounts) 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**

Large C&I Retrofit, \$2,238,542

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 sectors must exceed the minimum threshold of 1.0 in order to earn the associated shareholder incentive.

Other PSNH C&I Programs-Utility Specific, \$614,659

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	<u>(\$4,616,102)</u>
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 SO2 auction allowances. Audit's review of the CAAs invoices for SO2 noted double payments for participants totaling \$5,655.

Issue

PSNH admits on their response to audit request #051 that overpayments did happen on several SO2 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 shall 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 it 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.