New Hampshire Electric Cooperative
Final Audit Report
DE 12-262
2013 CORE Program

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 13, 2014
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor
Anthony Leone, Examiner

SUBJECT: New Hampshire Electric Cooperative (NHEC)
DE 12-262 - 2013 CORE
FINAL Audit Report

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

Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records related to the CORE Energy Efficiency Program for the calendar year 2013. The four participating electric utilities, Unitil Energy Systems, Inc. (UES), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE) and two gas utilities, Northern Utilities, Inc. (Northern) and Energy North (ENG) filed a joint petition for the program years 2013 through 2014. Each utility was audited individually.

Audit appreciates the assistance of Carol Woods, Energy Solutions Executive.

Approved 2013 Programs

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

<u>Residential – Income Qualified</u>
Home Energy Assistance Program (HEA)
<u>Residential – Non-Income Qualified</u>
Energy Star Homes Program– fuel neutral
NH Home Performance with Energy Star Program (HPwES)
Energy Star Appliance Program
Energy Star Lighting Program
High Efficiency Heat Pump Program

Commercial and Industrial
Large Business Energy Solutions Program
Small Business Energy Solutions Program
Educational Programs
Smart Start

Program Updates for 2013

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

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

HPwES Update

PSNH, UES, and NHEC have collaborated with the New Hampshire Community Development Finance Authority (CDFA) on the BetterBuildings Program. GSE did not participate. Homeowners enrolled in the HPwES program are eligible to receive rebates up to $4,000 in total on certain measures, with 50% (up to $2,000) of the rebate funded by the SBC, and the other 50% of the rebate funded through the BetterBuildings Program. While homeowners may also utilize BetterBuildings funds for on-bill financing, NHEC utilized the rebates only. The CDFA grant period ended 4/30/2013.

Regarding the Regional Greenhouse Gas Initiative (RGGI) funding

House Bill 1490 passed on 6/23/2012 updating RSA 125-O:23. In October 2012, the Commission, by Order #25,425 in docket DE10-188, approved a budget for use of the RGGI fund pursuant to HB 1490 which went into effect January 1, 2013, without the signature of the Governor. The law replaced the Greenhouse Gas Emission Reduction Fund with a new Energy Efficiency Fund. Distribution of funds in excess of $1 threshold price for carbon allowances were required to be rebated to all default service electric ratepayers. The remaining proceeds “shall be allocated by the commission as an additional source of funding to electric distribution companies for core energy efficiency programs that are funded by SBC funds”.

Order #25,425 instructed the electric utilities regarding the use of the remaining 2012 funds from the Greenhouse Gas Emission Reduction Fund and the allocation of 15% of the money for Low Income Home Energy Assistance (HEA). A utility performance incentive was not authorized for the HEA, while a flat 8% was authorized on the remaining programs. The Order outlined the budget as follows:

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

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

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

PSNH, acting as the lead utility, provided an invoice to the NHPUC for $3,064,072 on 2/4/2013 which was distributed to the utilities based on the Combined Expenses identified in the budget above. NHEC received $245,281.

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

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

Order #25,462 in docket DE12-262 outlined the use of the 2013, and ongoing, quarterly RGGI auction proceeds, as required by the 2012 HB1490.

<u>NHEC Mid-Year Adjustments</u>

On 7/26/2013, Commission Order #25,554 approved, on a temporary basis, amendments to the HEA Program due to a delay in Federal Funding. The changes include among other things, increasing the per-customer spending cap from $5,000 to $8,000 (for electric utilities only) to better serve low-income residents. On 12/30/2013 the Commission issued Order #25,615 extending this change through the 2014 calendar year.

2012 RGGI Expansion
Budgeted vs. Actual Performance

Account 25.416.xx tracks the use of the 2012 RGGI Expansion funds. Audit verified the RGGI Expansion to the following accounts and adjusting entries:

Account #	Account Name	Total
25.416.19	Rebates and Services	$232,691
25.416.35	CP&S Salaries	$ 12,590
25.416.58	RGGI Expense Recovery	$ 12,201
	Total 25.416.xx 12/31/2013	$257,482
Reclassification 2/2014		$ (12,201)
	Net RGGI Expansion	$245,281

An adjusting entry provided to Audit demonstrated that the $12,201 in account 25.416.58 was reclassified out of the RGGI Expansion into the following CORE expense accounts in February 2014, effective 12/2013:

24.416.19-129 Education	$ 658
24.416.19-117 HEA	$11,358
24.416.35-117 Indirect payroll	$ 185
	$12,201

Audit verified that the reclassified $12,201 was properly included in the appropriate CORE expense category.

According to page 6 of the Order and the Agreement, sector budgets (Residential, C&I) shall not exceed 5% of their prescribed budget without further review or approval by the Commission. Although NHEC spent within their budget they exceeded their Residential sector budget by 9% as evidenced by the net figures in the following table. **Audit Issue #1.**

Program	Budgeted	Actual	Variance
E-Star Appliance	$ 3,476	$ 3,960	114%
HEA	$ 135,481	$ 147,761	109%
Sub-total	**$ 138,957**	**$ 151,721**	**109%**
Small Business	$ 70,000	$ 41,451	59%
Large Business	$ 34,225	$ 50,328	147%
Education	$ 1,738	$ 1,782	103%
Sub-total	**$ 105,963**	**$ 93,561**	**88%**
Grand Total	**$244,920**	**$ 245,282**	**100%**

On April 5, 2013 the Commission approved changes to the 2012 RGGI Funds in such a way as to accommodate heating systems as an approved item to upgrade/replace as part of the HEA program. In that approval the utilities would strive to limit the amount of HEA funds used for heating systems to 25% of the HEA budget. For the 2013 program year, NHEC used 28.9% of their 2012 RGGI Expansion HEA program funds for heating system replacements.

RGGI Revolving Loan Fund

The RGGI Revolving Loan Fund (RLF) was established by Order # 25,425. NHEC initially received $200,000 and for the 2013 program year added $100,000 bringing the total funding of the RLF to $300,000.

Audit reviewed the NHEC activity within general ledger account #242.86 for both expenses and revenues. A reconciliation of the Loans System data within that GL Account was provided for the period ending 12/31/2013 detailed in the following table without exception.

Outstanding Loans	$ 218,013
Loans in Default	$ 3,003
In Process	$ 7,679
Funds Committed to Loans	$ 228,695
Funds Committed to Program	$ (300,000)
Funds Available to Loan 12/31/13	$ (71,305)

SBC CORE Filing Summary

NHEC filed their Performance Incentive report on July 30, 2014. The filed 2013 beginning balance matches the filed 2012 ending balance. All adjustments recommended in the 2012 Audit report are included in the 2013 Program Year Carry-forward balance calculation. In addition there are two adjustments for the 2013 Program Year. The first adjusts the $138 prior year correction as it was recorded as an increase to expenses and should have been a decrease to expenses in the Filing. This can be seen in the table below as $276 ($138*2). The second, NHEC included a reduction of the ISO Forward Capacity payments of $850. The third and final adjustment concerning Marketing Expenses is discussed later in the report.

2013 Filed Beginning Balance	**$ 470,282**
SBC Funding	$ 1,380,350
FCM Revenue	$ 27,064
RGGI Proceeds	$ 418,875
2013 Cumulative Interest	$ 20,697
Actual Collections	**$ 1,846,986**
Program Expenses	$ (1,800,626)
FCM Expenses	$ (14,448)
Prior Year Correction	$ (138)
2012 Incentive	$ (108,325)
2013 Incentive	$ (76,652)
Actual Expenses	**$ (2,000,189)**
2013 Filed Carry-forward Balance	**$ 317,079**
Adjust Prior Year Correction	$ 276
2012 Correcting Entry	$ (850)
Marketing Expenses	$ 707
2013 Audited Carry-forward Balance	$ 317,212

The ending over collected balance for the Core Programs of $ $317,079 was verified to the Balance Sheet account 254.40 as of 12/31/2013.

Budget vs. Actual

According to the Order and found in the Filing, the Utilities shall not exceed 5% of their prescribed budget without Commission approval. The tables below detail the actual & budgeted expenses by sector as found in the Filing dated 12/14/2012 and the Revised Schedule H filed 12/18/2012. Overall the combined Residential and C&I budget had a less than ½ % variance and the total for each sector was within the limit but in three instances individual programs exceeded the 5% cap. The figures represented below are sourced from the NHEC Annual Member Report and Performance Incentive Calculation filing and include the $126,926 of fuel neutral HPwES expenses but not the performance incentive.

Residential			
	Budget	Actual	Variance
E-Star Homes	$ 161,700	$ 70,300	43%
E-Star Lighting	$ 125,800	$ 121,700	97%
E-Star Appliance	$ 278,500	$ 444,500	160%
HPwES	$ 224,600	$ 213,626	95%
HEA	$ 286,200	$ 354,700	124%
Other	$ 107,800	$ 13,100	12%
	$ 1,184,600	$ 1,217,926	103%

Commercial & Industrial			
	Budget	Actual	Variance
Large C&I	$ 155,900	$ 197,700	127%
Small C&I	$ 421,000	$ 362,600	86%
Other C&I	$ 46,800	$ 22,400	48%
	$ 623,700	$ 582,700	93%

Residential and C&I Combined		
Total Budgeted	Total Spent	Total Variance
$ 1,808,300	$ 1,800,626	100%

Commission Order #25,462 established that 15% of the overall program budget shall be allocated for the Home Energy Assistance program. The following table shows that NHEC actually allocated 20% to the HEA Program.

Energy Efficiency Expenses	Required 15% of total	Actual HEA Expenses
$ 1,800,626	$ 270,094	$ 354,700

Revenue

The total of the funding sources for the 2013 calendar year found in the Performance Incentive report and verified to the NHEC general ledger is presented in the following table:

SBC Funds	$ 1,380,350
RGGI Auction Proceeds	$ 418,875
FCM Revenue	$ 27,064
Interest	$ 20,697
Total Funding	**$ 1,846,986**

System Benefits Charge

KWH sales were verified to the information in the Energy Assistance Program (EAP) Audit performed by the Commission. SBC revenues were also verified to the

SBC Reconciliation Report provided by NHEC and to the GL accounts associated with the Demand Side Management (DSM) listed in the following table. The difference of $40 was not material.

Sector	Account #	Type	Amount
Residential	44040	DSM Recovery	$ 836,036
Commercial	44240	DSM Recovery	$ 234,890
Industrial	44245	DSM Recovery	$ 149,636
PG<1000kva	44241	DSM Recovery	$ 49,961
PG>1000kva	44243	DSM Recovery	$ 45,547
Ski	44244	DSM Recovery	$ 62,290
Light	44415	DSM Recovery	$ 2,030
Total			**$ 1,380,390**

2013 RGGI Auction Proceeds

The filed amount of 2013 Quarterly RGGI Auction Proceeds of $418,875 includes the first three quarters payments of 2013 as well as the 2012 Carry Over proceeds of $181,086 paid in November 2013. Due to the timing of the 2013 4th Quarter RGGI Auction Proceeds payment it will be included in the 2014 Program Year Filing & Reconciliation.

Forward Capacity Market

The Performance Incentive calculation submitted by NHEC notes $27,064 in FCM Revenue. During the course of this audit it was discovered that only $25,563 had been recorded to their General Ledger Account #24.415.26. NHEC indicated there was 1 entry for $1,501 that was recorded to the wrong department (Dept. #20) with the move to department #24 reflected in the 2014 report.

Included in PI Calculation	$ 27,064
Recorded to General Ledger	$ 25,563
Variance	$ 1,501

Interest

Interest was properly calculated at 3.25% on the average monthly balance, including interest from the previous month. The rate was verified to the quarterly interest rate letters issued to all utilities by the Director of the NH PUC Gas/Water division.

Expenses

Performance Incentive

NHEC indicated they earned a Performance Incentive of $76,652. This figure was based on a total expense amount of $1,673,696. Audit verified that the total Expenses incurred do not include FCM Expenses and have the HPwES Fuel Neutral portion removed. A $4 variance was noted but is not material. The following table details the math:

Performance Incentive	
Total Expenses	$ 1,800,626
HPwES Fuel Neutral	$ (126,926)
Total to base PI on:	**$ 1,673,700**

Cost Benefit Ratio

As filed in their Performance Incentive report, all of NHEC's Cost/ Benefit Ratios were 1.0 or greater with the exception of one program. Although the entirety of the Residential sector was 1.86 the Performance Incentive report filed by NHEC indicated the HPwES Program had an actual Cost Benefit ratio of .23. NHEC explained the filed figure represents only the electric portion and not the combined electric and fossil fuel portion which was over 1.0.

Indirect Expenses

Payroll related expenses were verified to the following general ledger accounts noted in the tables for 2013. Indirect payroll is spread among employees' assigned activity codes, and as the weekly timesheet database is updated, the indirect allocation is calculated using the hourly payroll rate divided by 2,080 hours, with the result applied to the number of hours input by the employee. Sick time is tied to activity codes and general ledger accounts and spread only as time is reported as used within the week. Audit noted no exceptions to the allocation methods and figures.

Indirect Payroll	
Acct #	**Amount**
#24.416.35	$188,997
#68.416.35	$3,894
	$192,891
Sick Time	
Acct #	**Amount**
#24.416.47	**$6,006**
Taxes and Benefits	
Acct #	**Amount**
#24.416.48	$134,759
#68.416.48	$1,997
	$136,756

Transportation shown in account #24.416.52 represents Internal Administrative transportation to such things as PUC meetings and hearings. Account #24.416.54 represents Internal Implementation activities such as site visits. Each account can include mileage costs for Company or personal vehicle reimbursement. Company car usage includes an aggregated monthly cost for the vehicle (maintenance, registration, gas, depreciation, overhead for garage, etc.) which is then allocated based on miles driven. Personal vehicle use includes only mileage reimbursed at the IRS rate. There were no exceptions noted to the indirect expenses.

Expense Test Summary

NHEC tracks all SBC Core related expenses in the 24.416.xx account number and by a unique Activity Code. Activity Codes can be applied to multiple 24.416.xx accounts where appropriate. Currently NHEC uses Activity Code numbers between 116-185. Audit reviewed Excel Spreadsheets for all expenses by Activity Code and has verified that the total matches the expenses by 24.416.xx Account number which match those filed with the Commission in the Performance Incentive report. Audit has included a table of the expenses as submitted by NHEC and a selected review of reviewed invoices for the 2013 program year detailed below.

Program Name	Internal Admin	External Admin	Rebates & Services	Internal Impl.	Marketing	M & E	Total by Program	Rebates as % of all Expenses
EnergyStar Lighting	$ 5,527	$ 3,836	$ 84,486	$ 20,748	$ 5,926	$ 1,151	$ 121,673	69%
EnergyStar Homes	$ 2,903	$ 2,015	$ 34,465	$ 30,016	$ 309	$ 604	$ 70,313	49%
EnergyStar Appliances	$ 20,553	$ 14,263	$ 346,685	$ 54,486	$ 4,223	$ 4,279	$ 444,489	78%
HEA	$ 16,598	$ 12,746	$ 284,933	$ 32,602	$ 1,878	$ 5,985	$ 354,742	80%
HPwES	$ 9,533	$ 10,631	$ 138,784	$ 46,072	$ 1,706	$ 6,898	$ 213,623	65%
High Eff. Heat Pump	$ 559	$ 388	$ 7,850	$ 4,095	$ 60	$ 116	$ 13,068	60%
Other	$ 818	$ 567	$ 13,176	$ 3,547	$ 137	$ 170	$ 18,416	72%
	$ 56,492	$ 44,445	$ 910,380	$ 191,565	$ 14,238	$ 19,204	**$ 1,236,324**	74%
Expenes as %:	5%	4%	74%	15%	1%	2%	**100%**	
Program Name	Internal Admin	External Admin	Rebates & Services	Internal Impl.	Marketing	M & E	Total by Program	Rebates as % of all Expenses
Large Bus. ES	$ 8,969	$ 6,223	$ 151,976	$ 27,193	$ 1,505	$ 1,867	$ 197,733	77%
Small Bus. ES	$ 15,504	$ 10,759	$ 226,782	$ 103,681	$ 2,601	$ 3,228	$ 362,555	63%
Smart Start Loans	$ 126	$ 87	$ -	$ 3,754	$ 21	$ 26	$ 4,013	0%
	$ 24,598	$ 17,069	$ 378,758	$ 134,628	$ 4,127	$ 5,121	**$ 564,302**	67%
Expenes as %:	4%	3%	67%	24%	1%	1%	**100%**	
Grand Totals	**$ 81,090**	**$ 61,515**	**$ 1,289,138**	**$ 326,192**	**$ 18,366**	**$ 24,325**	**$ 1,800,626**	

Residential, Commercial & Industrial Education
Account #24.416.xx Activity Code #129 -- $35,500

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

Education for Students provides support for programs available to students from kindergarten through high school. Audit noted no exceptions for the education expenses.

Large Business Energy Solutions Program
Account #24.416.xx Activity Code #128, $197,733

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

The first Large Business invoice reviewed was for a local laundry facility. It was a custom rebate designed specifically for this project. Documentation provided indicated that the vendor replaced filters, reworked ducts, installed newer higher efficiency fans and air compressors at a total cost of $31,865. The customer was given a rebate of 11,152.75 or 35%. There were no exceptions noted to the invoice.

Another Large Business invoice reviewed was for Proctor Academy. The total cost of the project was $54,264 and they were given a rebate of $18,992 or 35%. The Academy replaced lighting and lighting controls in order to reduce their electricity usage. For this project, the Academy chose to utilize NHEC's Smart Start Program whereby there are no upfront costs and the money is paid back by the savings in the customer's bill.

Small Business Energy Solutions Program
Account #24.416.xx Activity Code #127, $362,555

Noted within the 9/17/2012 filing (pages 40-41) this program is designed for business customers using less than a twelve month average of 200kW. Similar to the Large Business Energy Solutions program, this program is intended for new or retrofit projects. The rebate amount for new projects is the lesser of 75% or a one year payback and for retrofit projects is the lesser of 35% for electric customers (50% for gas customers) or a one year payback. The program also has a "Turnkey Solution" as described on page 40 of Attachment A of the Settlement Agreement per Order #25,462, a rebate amount 50% is mentioned as being available for small business.

One invoice provided by NHEC covered a replacement of various lights around a small business. The documentation indicated the electrical contractor was properly licensed and the total bill was for $12,979.27 for the location within NHEC territory. The rebate totaled $6,489.64 or 50% of the total cost.

Another invoice provided by NHEC covered replacing inefficient lighting and lighting fixtures at a total cost of $13,518.80 and the initial rebate paid was for $6,959.40. NHEC indicated that they calculated the rebate from the initial project estimate which was higher. NHEC indicated the actual 50% rebate should have been $6,759.40. NHEC provided documentation of a bill to the vendor for the $200 difference dated September 26, 2014.

The last Small Business invoice reviewed was for the Mast Way Elementary School. The school upgraded their lighting systems to more efficient ones at a cost of $45,637 and they were given a rebate of $15,000. There were no exceptions noted to the invoice.

<u>Residential Energy Star Homes Program</u>
<u>Account #24.416.xx Activity Code #141 -- $70,313</u>

As noted on page 24 of the 9/17/2012 filing, this program is fuel neutral designed to encourage homeowners and builders to build homes that are at least 15% more efficient than homes built to the 2009 International Energy Conservation Code (IECC). The program provides home builders with technical assistance, financial incentives, and instruction relating to compliance with Energy Star standards. New single family and multi-family projects are eligible, as are complete rehabilitations of existing structures. Project rebates are based on a sliding scale of Home Energy Rating System (HERS) results. There were no exceptions noted o the Energy Star Homes program.

<u>Residential Home Performance with Energy Star (HPwES)</u>
<u>Account #24.416.xx Activity Code #143 -- $213,623</u>

Noted on page 27 of the 9/17/2012 filing, regarding the HPwES program, the electric utilities will continue to provide fuel neutral weatherization services to their customers. Customers participating in the HPwES program can receive an incentive of 50% up to $4,000. There were no exceptions noted to the HPwES program.

One invoice from Quality Insulation indicated two customers received weatherization services. One customer received multiple improvements at a total cost of $7,207.35 and a rebate of $3,427.27 or 48% was paid by NHEC. The total cost of the second job was $2,740.48 and a rebate of $1,236.24 or 45% was paid by NHEC. Both of the customers received rebates that were within the cap of 50%.

Audit reviewed similar invoices from Quality Insulation. Both invoices totaled $4,000 with no exceptions noted.

<u>Residential Energy Star Appliance Program</u>
<u>Account #24.416.xx Activity Code #140 -- $444,489</u>

Noted on page 30 of the 9/17/2012 filing is a description of the specific electric and gas rebates for itemized appliances. Rebates range from $10 through $1,500. There were no exceptions noted to the Energy Star Appliance program. Rebates given as part of the High Efficiency Heat Pump pilot program fall under this program.

Audit reviewed one invoice for $1,800. The customer had installed one high efficiency heat pump rather than two. Subsequently, NHEC contacted the customer and coordinated to return half the payment as they were only entitled to a rebate of only $900. The overpayment of rebates was noted in one other instance. Again NHEC corrected the transaction in the same month as the other. Audit reviewed one other high efficiency heat pump invoice without exception.

<u>Residential Energy Star Lighting Program</u>
<u>Account #24.416.xx Activity Code #116 -- $121,673</u>

Noted on page 31 of the 9/17/2012 filing lists a description of the lighting program which will continue to increase the use and availability of energy efficient lighting products in New Hampshire. The program is open to all residential customers and will (1) offer rebates for interior and exterior ENERGY STAR labeled bulbs and fixtures, (2) promote the efficiency and environmental benefits of the latest lighting technologies, and (3) leverage the ENERGY STAR branding across three programs - Lighting, Homes, and Appliances. There were no exceptions noted to the Energy Star program.

Audit reviewed one invoice from EFI for mail in lighting rebates. EFI is a contractor used by various utilities for similar services. No exceptions were noted.

<u>Residential Home Energy Assistance Program</u>
<u>Account #24.416.xx Activity Code #117 -- $354,742</u>

Income qualified customers are eligible to receive up to $5,000 ($8,000 after the mid-year adjustment) for insulation, weatherization, cost effective appliance and lighting upgrades, and appropriate health and safety measures. Approved by Secretarial Letter on July 26, 2013 HEA funds became eligible to replace hot water/space heating systems at a cost above and beyond the new total of $8,000. Additionally the Commission directed the Core Electric utilities to strive to limit the amount of funds used for heating systems to 25% of the overall HEA budget.

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

The Filing and Order indicate that 15% of the total budget, regardless of funding source, should be allocated to the HEA. As is discussed earlier, 20% of the 2013 budget was allocated to the 2013 HEA program budget.

In one invoice, the customer had a heating system replaced at a cost of $4,431.25 as evidenced by the invoice from the installation vendor. NHEC explained there was no invoice from OTTER due heating systems not originally approved as part of the HEA program and no way to therefore produce one from OTTER. However, NHEC does separately track the information related to all heating system replacements under the HEA program. Audit verified that the same customer did in fact also receive the standard weatherization improvements as required to be eligible for a heater replacement.

Another invoice reviewed indicated a home in Derry, NH received $4,336.36 worth of upgrades and combined with $663.64 in Home Audit and Administration expenses the total invoice paid by NHEC with EE funds was $5,000. The date of the invoice was April 3, 2013. Only weatherization improvements were included on this invoice.

A review of similar invoices from the Tri-County Community Action Agency and Southern NH Services revealed similar types of expenses all at or under the $5,000 or $8,000 limit. A review of the tracking sheet for replaced heating systems did not note any exceptions.

Statewide Established Rates

According to page 33 of the Filing and approved in the Order, each utility shall utilize the statewide rates administered by PSNH when calculating the cost of the retrofit and the amount of reimbursement due to the vendors. Audit requested and NHEC provided a schedule of the rates used. The rates provided match the rates on file at the PUC previously provided from PSNH and other utilities. A review of the invoices for the HEA program was without exception.

Marketing Expenses

Within the expenses of Account #24.416.65 Activity Code #162 (All Programs) for 2013, NHEC indicated they spent $707 on employee shirts. These items do not appear to fulfill the intention of the Commission's approval of the current Core Program. **Audit Issue #2.**

NHEC Specific Programs

The following programs were offered specifically by NHEC with the respective totals being part of the $1,800,626 total rather than adding to it.

Smart Start Program
Account #24.416.xx Activity Code #185 -- $4,013

According to the 9/17/2012 Joint Proposal this program provides C&I members with an opportunity to install energy efficient measures with no up-front costs, and pay for them over time with the savings obtained from lower energy costs. NHEC has indicated that the source of the funds are NHEC company funds and that SBC funds are only used to pay for the implementation and administration of the program. For the 2013 program year, NHEC estimated spending $12,500 but indicated they spent only $4,013.

Geothermal Heat Pump
Account #24.416.xx Activity Code #174 – $13,068

From the Joint Proposal, NHEC offered the following relative to the Heat Pump program: "The objective of the High Efficiency Heat Pump Program is to assist residential members to reduce their energy costs by installing high efficiency heat pump technologies. These technologies include high efficiency air source heat pumps and geothermal heat pumps…NHEC will offer this program to residential members for new construction applications in conjunction with the Energy Star Homes Program". NHEC indicated they spent $13,069 for this program including all labor and incentive charges.

Audit Issue #1

2012 RGGI Expansion Overspending

Background

Commission Order # 25,425 authorized the 2012 RGGI Expansion and their respective budgets.

Issue

As customary with the majority of Core Electric Programs a Utility may overspend any respective sector budget by no more than 5%. Within the Residential 2012 RGGI Expansion Budget NHEC spent 109% of their budget without notifying the Commission.

Audit Recommendation

Audit recommends that NHEC notify the Commission each time a Core Program budget is to exceed 105%.

Company Response

The Company agrees that in the future, it will seek Commission approval as required, prior to shifting funds.

Audit Comment

Audit concurs with the Company comment.

Audit Issue #2

Marketing Expenses

Background

Marketing expenses outlined in the current program year filing and approved by the Commission are designed to promote the energy efficient programs.

Issue

NHEC expended $707 to purchase 16 shirts with the NHEC logo. Each of the eight NHEC staff received one long sleeved shirt and one short sleeved shirt.

Audit Recommendation

Audit understands that the NHEC logo on the standard shirts are worn at home shows to promote the uniform and professional appearance of the NHEC staff.

Audit does not believe that the branding of NHEC for identification of NHEC personnel at home shows represents the marketing expenses contemplated in the 9/12/2012 filing. Marketing was identified as "*through a number of strategies including one-on-one marketing by utility representative, vendors, energy service providers, seminars and training sessions,…and direct marketing…direct mail to customers, leads from trade organizations, and referrals from each utilities' customer service organization.*"

Audit recommends that NHEC reduce the total included in the shareholder expense calculation by $707.

Company Response

During 2013, NHEC purchased 16 shirts at a total cost of $707 for eight staff whose responsibilities include the promotion and implementation of the energy efficiency programs. Each person received one long sleeve and one short sleeve shirt. It is expected that these shirts will be used for multiple years. These shirts identify the staff as NHEC employees and present a uniform, professional appearance for the energy efficiency group. The shirts are worn when staffing sponsored trade shows, educational programs and when visiting member sites to discuss energy efficiency.

NHEC attends trade shows and other events to promote energy efficiency, not the NHEC brand. To have a presence, and thus the opportunity to speak as an expert on the topic of energy efficiency, NHEC representatives need to be in a uniform to indicate from where they are.

NHEC believes that the purchase of the 16 shirts was an approved expense, reasonable and modest in size, which contributed to NHEC's efforts to promote and market the energy efficiency programs. As such, NHEC believes that it was appropriately recovered from the Systems Benefits Charge.

Audit Comment

Audit appreciates the response provided by the Company, and understands the comment. Audit also understands that the revision to the member incentive would be minimal, and thus does not request that the incentive be recalculated to exclude the identified amount.

Audit suggests that the CORE working group discuss the branding of clothing as an energy efficiency expense, and determine if the Company logo is sufficient or if the Company logo with some additional energy efficiency reference on it might be more in line with the promotion of the CORE programs.