

Northern Utilities, Inc.
Final Audit Report
DE 12-262
2013 CORE Program

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: August 15, 2014

AT (OFFICE): NHPUC

FROM: Anthony Leone, Examiner

SUBJECT: CORE Energy Programs DE 12-262

FINAL Audit Report

Northern Utilities, Inc.

TO: Tom Frantz, Director Electric Division NHPUC
Steve Frink, Assistant Director, Gas/Water Division NHPUC
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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, Unil 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 filed a joint petition for the program years 2013 through 2014. Each utility was audited individually.

In accordance with Commission Order #24,630 in Docket DG 06-036, Northern was directed to provide the Commission with monthly summaries of expenses and recoveries related to the energy efficiency programs in effect as well as a final report and to file those summaries in the most current docket; in this case DE 12-262. Audit thanks Chad Dixon and Karen Daniell for their timely assistance throughout the audit process.

Summary

Approved Programs

As proposed to the Commission on September 17, 2012 and agreed upon in the Settlement Agreement dated 12/14/2012 (Agreement) and approved in Order #25,462 (Order) on February 1, 2013, Northern's 2013 calendar year energy efficiency programs included:

Residential – Income Qualified

Home Energy Assistance Program (weatherization program)

Residential – Non-Income Qualified

Energy Star Homes

NH Home Performance with Energy Star (HPwES)

Energy Star Appliance Program (Gas Networks)

Educational

Residential Building Practices and Demonstrations Program

Commercial and Industrial

Large Business Energy Solutions Program

Small Business Energy Solutions Program

Educational Programs

Program Updates

The Agreement, its attachments and the Order also included the following significant changes for the electric and gas companies as appropriate:

- The Core Utilities are working with the Office of Energy and Planning (OEP) to plan and deliver training programs applicable to the home weatherization staff.
- Implementation with the OEP on a common weatherization project database and shared software for assessing energy savings potential, program administration, and reporting expected to be operational in January 2013.
- The Core Utilities have 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.
- The Core Utilities will be working with the state and local governments to take advantage of legislative changes that allow state and local governments to enter into energy performance contracts for terms up to 20 years.
- The Core Utilities are adding to their education and training programs a topic specifically identified in the Vermont Energy Investment Corporation (VEIC) report; new home construction techniques utilizing the Energy Star 3.0 Standard and energy code training
- The Core Utilities are also including multi-family dwellings in both the HPwES and Energy Star Homes Programs.
- The Core Utilities are allowed to qualify customers for rebates up to a maximum of \$8,000 through the HPwES program by combining both their electric and gas utility companies' programs.
- The Core Utilities have also increased their budgets by \$6 million to reflect additional RGGI funds and have set aside 15% of their budget for the Low-Income Home Energy Assistance Program.

Significant Mid-Year Adjustments

On August 21, 2013, Northern notified the Commission of a transfer of 20% from the HPwES program to the Energy Star Appliance Program. Pursuant to the program rules, transfers of 20% or less to or from individual programs can be made without Commission approval as long as notification is given.

On November 11, 2013 Order #25,593 was approved increasing Northern's Energy Star Appliance Program by \$64,814. This order also deferred approving an additional \$5,185 (8%) worth of performance incentive until Northern files its calculation of its performance incentive for the 2013 year. The original budget of the "Gas Networks" program was \$275,000 and at year end expenses including the mid-year increase totaled \$359,854.68.

Program Year 2013 Activity

2013 Carry Forward Balance

Northern provided the following reconciliation as revised page 16 in the Electric Annual Report & Performance Incentive package originally filed in docket DE 12-262 on May 15, 2014:

| | |
|------------------------------------|-------------------|
| Beginning Balance Under-collection | \$ 3,055.00 |
| 2013 Program Expenses | \$ 1,123,684.00 |
| 2013 Incentive Estimate | \$ 89,879.00 |
| 2012 Incentive True-up | \$ -0- |
| 2013 Actual Collections | \$ (1,253,129.00) |
| 2013 Interest | \$ (6,040.00) |
| Ending 2013 Over-collection | \$ (42,551.00) |

The ending 2013 over-collection was verified to the following Energy Efficiency (EE) Residential and Commercial & Industrial GL Balance Sheet accounts without exception:

| | <u>12/31/2012</u> | <u>12/31/2013</u> |
|--------------------------------------|-------------------|-------------------|
| #173-41-02 Accrued Revenue EE-R-NH | \$ 101,015.00 | \$ 9,186.00 |
| #173-41-06 Accrued Revenue EE-C&I-NH | \$ (97,960.00) | \$ (51,738.00) |
| | \$ 3,055.00 | \$ (42,552.00) |

Audit verified the rolling over / under calculations of balances, revenues, expenses, and interest at 3.25% to the monthly reports required per Order #24,630 and filed as well in DE 12-262. Audit verified each monthly summary and identified immaterial rounding variances; there were no material exceptions noted. Audit also compared the budgeted and actual expenses and noted no exceptions outside of the 105% cap.

Reported Activity

The program activity was verified to the model used by the Accounting department as well as to the GL accounts identified as the reconciling mechanism. The following table details that revenue recognized matches the incurred expenses. The difference between the Actual Collections referenced above and the Recognized Revenue below combined with the overall interest charge and the 2012 ending under-collection equals the new over-collection balance.

| Type | GL Revenue Accounts | Amount |
|-------------|--------------------------------|-------------------|
| Residential | Accounts 30-49-01-72-480-xx-xx | \$ (677,739.00) |
| Commercial | Accounts 30-49-01-72-481-xx-xx | \$ (215,175.00) |
| Industrial | Accounts 30-49-01-72-489-xx-xx | \$ (360,216.00) |
| Accrued | Accounts 30-49-01-72-495-xx-xx | \$ 39,567.00 |
| | Total Recognized Revenue | \$ (1,213,563.00) |
| | GL Expense Accounts | |
| Res & C/I | Accounts 30-49-02-72-908-xx-xx | \$ 1,123,686.00 |
| | Estimated Incentive | \$ 89,877.00 |
| | Total Incurred Expenses | \$ 1,213,563.00 |

Audit requested clarification of any true-ups that were not currently reflected in the Accounting department models submitted; Northern stated that all true-ups / amounts are reflected in the model. A final true-up will be required to incorporate any changes between the 2013 estimated and actual Commission approved performance incentive.

Revenue

The CORE Gas programs are funded from a portion of the Local Delivery Adjustment Clause (LDAC). Audit requested and Northern provided a printout from the “HT” customer information system, showing terms delivered for the month of June 2013. The report, HTRS 19B-Gas Service Revenues and Purchased Power-All Consumers, reflected terms sold, which agreed with the monthly filing of Northern. Audit recalculated the Energy Efficiency revenue, using the rates established in the LDAC DG 13-257. There were no exceptions noted. The 2013 program funding actual totals were:

| LDAC Funding | |
|-------------------------|---------------------|
| Residential | \$ 645,999 |
| Residential Low Income | \$ 31,740 |
| Commercial & Industrial | \$ 575,391 |
| Accrued Revenue | \$ (39,567) |
| Net LDAC | \$ 1,213,563 |

Interest

The Energy Efficiency Program Monthly Report shows that interest is calculated based on the average (over)/under recovery balance multiplied by the prime rate, divided by 365, then multiplied by the number of days in the month. The month-end over/under recovery balance including interest is used as the beginning balance for the following month. Total interest for 2013 was reported as \$6,040 without exception. Audit verified the interest rates reported to the prime rates of the Federal Reserve that were in effect on the first day of the month prior to the quarter start, all of which were 3.25%.

Expenses

Audit reviewed the monthly reports as filed and verified that the expenses in total for the calendar year agree with the shareholder incentive as well as the following general ledger accounts. The first table below represents all incurred expenses listed by GL Account #, less the performance incentive. The GL account numbers provide information relative to the specific program and the expense type is indicated by the numbers included in each column heading. The 2nd and 3rd tables represent the total expenses as found in the 4th quarter 2013 CORE Energy Efficiency Report filed by PSNH on 3/4/2014 Attachment H. A footnote in the 4th Quarter Report states that actual program expenses will vary from the numbers filed.

Total Expenses by GL Account

| 2013 | | | | 3rd Party | | 3rd Party | | 3rd Party | | Reg & | | Prog | | TOTAL by | |
|-------------------------|---------------------|-----------|------------|-----------|-----------|-----------|-----------|-----------|------------|-------|--|-----------------|--|----------|--|
| GL Name | GL Account # | Audits | Rebates | M&E | M&E | Marketing | Admin | General | Admin | | | PROGRAM | | | |
| | | 41 | 40 | 31 | 30 | 21 | 14 | 13 | 10 | | | | | | |
| Low Income Retrofit | 30-49-02-72-908-01- | \$ 7,130 | \$ 95,252 | | \$ 2,002 | \$ - | \$ 13,359 | \$ 9,584 | \$ 20,950 | | | \$ 148,277 | | | |
| Residential Retrofit | 30-49-02-72-908-25- | \$ 2,325 | \$ 22,868 | \$ 1,456 | \$ 2,306 | \$ 1,834 | \$ 6,294 | \$ 8,846 | \$ 30,474 | | | \$ 76,403 | | | |
| Residential Gas Equip | 30-49-02-72-908-29- | \$ - | \$ 285,520 | \$ - | \$ 3,696 | \$ 24 | \$ 22,801 | \$ 17,693 | \$ 30,121 | | | \$ 359,855 | | | |
| Residential Education | 30-49-02-72-908-43- | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,286 | \$ - | \$ - | | | \$ 1,286 | | | |
| Res New Construction | 30-49-02-72-908-47- | \$ 19,485 | \$ 32,889 | \$ - | \$ 1,078 | \$ 228 | \$ 1,013 | \$ 5,160 | \$ 23,395 | | | \$ 83,248 | | | |
| Lg C&I Retrofit | 30-49-02-72-908-36- | \$ 5,200 | \$ 110,000 | \$ - | \$ 2,882 | \$ - | \$ 7,089 | \$ 6,635 | \$ 28,571 | | | \$ 160,377 | | | |
| Sm C&I Retrofit | 30-49-02-72-908-49- | \$ 12,151 | \$ 27,980 | | \$ 1,386 | \$ 750 | \$ 1,329 | \$ 6,635 | \$ 24,483 | | | \$ 74,714 | | | |
| Lg C&I New Construction | 30-49-02-72-908-50- | \$ - | \$ 56,050 | \$ - | \$ 2,838 | \$ - | \$ 8,926 | \$ 11,795 | \$ 46,470 | | | \$ 126,079 | | | |
| Sm C&I | 30-49-02-72-908-51- | \$ - | \$ 69,500 | \$ - | \$ 1,540 | \$ - | \$ 1,477 | \$ 7,372 | \$ 10,198 | | | \$ 90,087 | | | |
| C&I MF Com Area | 30-49-02-72-908-57- | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,360 | \$ - | \$ - | | | \$ 3,360 | | | |
| | | \$ 46,291 | \$ 700,059 | \$ 1,456 | \$ 17,728 | \$ 2,836 | \$ 66,934 | \$ 73,720 | \$ 214,662 | | | \$ 1,123,686.00 | | | |

Residential Expenses by Program Tracking Activity (Att. H)

| 2013 | | | | Cust. | | | | | | TOTAL by | |
|-----------------------|---------------------|------------------|-----------------|-------------------|-------------------|-----------------|------------------|--|--|-------------------|--|
| GL Name | Program Name | Internal | External | Rebates & | Internal | Marketing | Evaluation | | | PROGRAM | |
| | | Admin | Admin | Services | Impl. | | | | | | |
| Res New Construction | E-Star Homes | \$ 4,146 | \$ 101 | \$ 52,374 | \$ 24,547 | \$ 228 | \$ 1,852 | | | \$ 83,248 | |
| Residential Retrofit | HPwES | \$ 8,110 | \$ 629 | \$ 25,193 | \$ 36,875 | \$ 1,834 | \$ 3,762 | | | \$ 76,403 | |
| Residential Gas Equip | E-Star Appliances | \$ 9,205 | \$ 2,280 | \$ 285,520 | \$ 56,476 | \$ 24 | \$ 6,349 | | | \$ 359,854 | |
| Low Income Retrofit | Home Energy Assist. | \$ 5,449 | \$ 1,336 | \$ 102,382 | \$ 35,670 | | \$ 3,439 | | | \$ 148,276 | |
| Residential Education | Other Residential | \$ 129 | | | \$ 1,158 | | | | | \$ 1,287 | |
| | Total Res | \$ 27,039 | \$ 4,346 | \$ 465,469 | \$ 154,726 | \$ 2,086 | \$ 15,402 | | | \$ 669,068 | |
| | | 4% | 1% | 70% | 23% | 0% | 2% | | | 100% | |

Commercial & Industrial Expenses by Program Tracking Activity (Att. H)

| 2013 | | | | Cust. | | | | | | TOTAL by | |
|---------------------------------|------------------------|------------------|-----------------|-------------------|-------------------|-------------|------------------|--|--|-------------------|--|
| Program Name | | Internal | External | Rebates & | Internal | Marketing | Evaluation | | | PROGRAM | |
| | | Admin | Admin | Services | Impl. | | | | | | |
| Large Business Energy Solutions | | \$ 13,955 | \$ 1,602 | \$ 171,250 | \$ 91,166 | \$ - | \$ 8,485 | | | \$ 286,458 | |
| Small Business energy Solutions | | \$ 8,370 | \$ 281 | \$ 109,631 | \$ 40,741 | \$ - | \$ 5,027 | | | \$ 164,050 | |
| Other C & I Programs | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | | | \$ - | |
| | Total C & I | \$ 22,325 | \$ 1,883 | \$ 280,881 | \$ 131,907 | \$ - | \$ 13,512 | | | \$ 450,508 | |
| | | 5% | 0% | 62% | 29% | 0% | 3% | | | 100% | |

HEA/LI Expenses

As found in Commission Order #25,462 and the Agreement, 15% of the overall budget shall be apportioned to the HEA/LI weatherization program. At the end of 2013, Northern had appropriated 13.2% of the overall budget to HEA/LI weatherization program. It should also be noted that 64% of the money in the HEA/LI weatherization program was used for rebates while the remaining 36% covered all other expenses.

Sample Testing

Audit selected a sample of twelve invoices and three expense allocations to review in detail. The sample represents 18.5% of the total expenses for the year.

Residential Gas Equipment—3rd Party Admin 30-49-02-72-908-29-14

Audit selected one entry and the documentation provided by Northern indicated the administration fee was paid to Orr & Reno for legal services performed during the months of August and September 2013 evidenced by detailed time sheets. The total cost was \$4,176.50

Residential Gas Equipment--Rebates 30-49-02-72-908-29-40

Audit selected one entry and the documentation provided by Northern indicated the rebate was paid to Helgeson Enterprises, Inc. for various residential appliance rebates. Audit requested clarification on the relationship with Northern and they indicated that Helgeson is a third party processor of rebates. Audit also understands that with the volume of rebates paid out it would not be the most efficient use of Northern's, and therefore the ratepayer's, resources for Northern to process the rebates themselves.

Residential Education--3rd Party Admin 30-49-02-72-908-43-26

Audit selected one entry and the documentation provided by Northern indicated the administration fee was paid to the Culver Company for work performed on the Unitil Energy Efficiency website as well as outreach to the community. The total cost incurred was \$24,500 of which \$18,375 was allocated among NH, MA & ME for general communication expenses and \$6,125 was due from the EE portion of website. Northern indicated the allocation of \$6,125 was spread among NH, MA & ME with the NH Gas operations responsible for \$1,286.25 or 5.25%.

Residential New Construction--Rebates 30-49-02-72-908-47-40

Audit selected one entry and the documentation provided by Northern indicated the rebate was paid to the Rochester NH Housing Authority for constructing new energy efficient elderly housing. The rebate of \$12,000 was calculated based on the HERS (Home Energy Rating System) score given to the new residential buildings where a lower rating is a better rating. As published by HERS, the standard American home has a value of 100. The target for the housing complex in Rochester was 70, and the final EE audit valued the complex at 50. The incentive allows for \$50 per point below the standard up to a maximum of \$1,000 per unit constructed. In this case, 12 housing units were constructed with the maximum rebate of \$1,000 per unit.

Residential New Construction--Audits 30-49-02-72-908-47-41

Audit selected one entry and the documentation provided by Northern indicated the rebate was paid to GDS Associates, Inc. for energy efficiency audits conducted on newly

constructed homes in various NH towns. The rebate of \$6,210.82 represents 100% of the total cost indicated, as it was below the limit of \$1,000 cap per building audited. It should be noted that \$300.82 of the rebate was charged to the New Construction Rebate for Energy Efficient homes, a different GL Acct # than the Audit program, as it was for CFL fixtures and bulbs rather than EE audits.

Small Commercial and Industrial Retrofit--Rebates 30-49-02-72-908-49-40

Audit selected one entry and the documentation provided by Northern indicated the rebate was paid to John J Flatley of the Flatley Company for installation of six boilers at some of their Somersworth, NH properties. The rebate of \$25,200 represents 11% of the \$213,952.65 total cost indicated.

Small Commercial and Industrial Retrofit--Audits 30-49-02-72-908-49-41

Audit selected one entry and the documentation provided by Northern indicated the rebate was paid to Yankee Thermal Imaging as partial payment for an Energy Efficiency Audit performed for the USDA Forest Service Northeast Region. The rebate of \$4,287 represents 50% of the \$8,574 total cost indicated.

Large Commercial and Industrial Retrofit --Rebates 30-49-02-72-908-36-40

Audit selected two entries for review. The documentation provided by Northern for the first rebate was paid to the Limbach Company, LLC as partial payment for installation of four boilers at the Riverwoods housing complex in Exeter, NH. The rebate of \$40,000 was 32% of the \$125,000 total cost indicated.

The second set of documentation provided indicated the rebate went to Highliner Foods of Portsmouth, NH for installation of a new boiler and hot water heater. The rebate of \$40,000 represents 20% of the \$197,724 total cost indicated.

Large Commercial and Industrial Retrofit --Audits 30-49-02-72-908-36-41

Audit selected one entry and the documentation provided by Northern indicated the rebate was paid to ERS (Energy & Resource Solutions) of Andover, MA for conducting a comprehensive energy efficiency audit of Erie Scientific of Portsmouth, NH. The rebate of \$3,750 represents 50% of the \$7,500 total cost.

Large Commercial and Industrial New Construction--Rebates 30-49-02-72-908-50-40

Audit selected two entries for review. The documentation provided by Northern the first rebate was paid to Smuttynose Brewing for installation of four boilers with energy efficient control systems at their new facility in Hampton, NH. The rebate of \$9,550 represents 10% of the \$93,000 total cost indicated.

The second set of documentation provided indicated the rebate went to the City of Portsmouth for installation of four boilers. The rebate of \$30,000 represents 16% of the \$185,000 total cost indicated.

Other Efficiency

Audit requested clarification if Northern was still active in the Better Building revolving loan fund financed through the NH CDFA (Community Development Finance Authority). Northern indicated that as of April 30, 2013 the program had been terminated. In addition, Northern indicated it continues to be engaged in the program only insofar as it a) continues to collect monthly payments from customers who borrowed funds under the program on their gas utility bills, and b) returns the balance of funds collected from customers to the CDFA on a quarterly basis.