

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: October 5, 2009

AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner

SUBJECT: CORE Energy Programs – New Hampshire Electric Coop.
DE 07-106
Final Audit Report

TO: Tom Franz, Director Electric Division, NHPUC
Jim Cunningham, Analyst Electric Division, NHPUC

Introduction

The Public Utilities Commission Audit Staff (Audit) has conducted an audit of the books and records at New Hampshire Electric Coop. (NHEC) related to the CORE Energy Program for the calendar year 2008. The four electric utilities (UES, PSNH, NHEC, and GSE) filed a joint petition for the program year 2008 on September 28, 2007. The filing was revised February 29, 2008.

Audit thanks Carol Woods, Energy Solutions Manager at NHEC, for her timely assistance during the audit process.

Summary of the Program

Commission Order 24,815 issued on December 28, 2007 approved the CORE energy efficiency program for calendar year 2008, as proposed by the regulated electric utilities. The proposal recommended offering the following programs:

1. Energy Star Homes
2. Home Energy Solutions
3. Energy Star Lighting
4. Energy Star Appliance
5. Home Energy Assistance for low income customers
6. New Equipment and Construction for large commercial and industrial customers (C&I)
7. Large C&I Retrofit
8. Small Business Energy Solutions for small C&I customers
9. Educational programs
10. certain utility specific programs

The program is funded through the System Benefits Charge (SBC), at \$.0018 per kWh. The total SBC of \$.003 is split between the Energy Efficiency (EE) program and the Low Income Electric Assistance program (EAP). For the first nine months of 2008, the total charge of \$.003 was split with EE at \$.0018 and EAP at \$.0012. Per Commission Order 24,903, beginning on October 1, 2008, the EAP portion increased to the statutory limit of \$.0015. (RSA 374-F: VIII (c)).

The tariff on file at year end 2008 reflects the increase in the EAP portion and shows the total SBC to be \$.0033. NHEC does not apply the EE portion of the The increase in the total SBC is in compliance with RSA 374-F: VIII (b) and RSA 38:36. Notification from the Chairman of the PUC to the Secretary of State was documented as required, by letter dated May 1, 2001.

The Order also noted the FERC approval of a regional Forward Capacity Market (FCM) to be operated by the Independent System Operator for New England (ISO-NE). “Energy efficiency measures installed after June 16, 2006, that can be demonstrated to be operational during hours of peak electrical usage, are eligible to receive capacity payments through the FCM.” (Order 24,815, page 4) The Order further noted that ...“*All such capacity payments received would be used to supplement the Utilities’ energy efficiency program budgets*”. Expenses associated with the FCM were authorized to be netted against the capacity payment. Any under-funding would be offset with EE revenue from the SBC.

Utilities are required to provide the ISO-NE with the kW demand savings achieved through the use of the energy efficiency measures, with such reporting to the ISO to be noted as “Other Demand Resources” (ODR). Refer to the Forward Capacity section of this report.

Budget and Incentive for 2008

The 8% calculated incentive was \$96,745, based on the budget as filed in docket DE 07-106 of \$1,209,315 (see CORE filing page 80). NHEC does not estimate the actual incentive during the program year, rather posts the actual earned incentive in December of the year following the program year with which the incentive is associated. Audit reviewed the posting in December 2008 of \$132,284 which was the actual incentive earned for program year 2007. The entry was a debit to 254.40 Miscellaneous Deferred Credit – DSM Over Recovery, and a credit to 426.52, Planned Program Incentive. NHEC properly, does not calculate any interest to add onto the Commission approved shareholder incentive.

Summary of 2008 Activity as Audited vs. Reported

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

Verification of EE Activity

System Benefit Charge (SBC)

According to the NHEC tariff, usage for kWh is billed as required using the full SBC of \$.003. (Total increased to \$.0033 October 2008). The total kWh sales for the year, on which the \$.0018 SBC was billed, were 740,470,889. However, the total kWh sales, including outdoor street lighting, should have summed to 744,149,741. The total annual kWh sales for which the \$.0018 portion of the total SBC was not charged were 3,678,852. For 2008, the under-collection of energy efficiency SBC revenue was \$6,622. **Audit Issue #1**

Calculation of Interest

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

Expenses

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

Forward Capacity Market

Net income resulting from the Forward Capacity Market (FCM), also known as the Other Demand Resources (ODR) was determined by Commission Order to be used in the CORE programs. The reported activity for the FCM including 2007 was inaccurately reflected in the filing. Expenses for 2007, reported to be \$1,824 inadvertently did not include a total of \$410 in account #24.416.55. Therefore, the *cumulative* total shown on the FCM actual in docket DE 07-106, \$41,331 net, income minus expenses, should be \$40,921. As noted in the NH CORE Energy Efficiency FCM portion of the filing in docket DE 07-106, NHEC reflected the following actual activity for 2008, while Audit verified the following:

	<u>Reported</u>	<u>Verified</u>
FCM Payments Received from ISO-NE 2007	\$10,645	\$10,645
FCM Payments Received from ISO Q1 2008	10,422	10,422
FCM Payments Received from ISO Q2 2008	6,948	6,948
FCM Payments Received from ISO Q3 2008	1,097	1,097
FCM Payments Received from ISO Q4 2008	<u>20,270</u>	<u>20,270</u>
Total Payments Received	\$49,382	\$49,382
	<u>Reported</u>	<u>Verified</u>
FCM Expenses Financial Assurance 2007	500	500
FCM Expenses Financial Assurance Q4 2008	750	750
<i>FCM Other Expenses 2007</i>	<i>1,824</i>	<i>2,234</i>
FCM Other Expenses Q1 2008	958	958
FCM Other Expenses Q2 2008	1,960	1,960
FCM Other Expenses Q3 2008	1,136	1,136
FCM Other Expenses Q4 2008	<u>923</u>	<u>923</u>
Total Expenses	<u>\$ 8,051</u>	<u>\$ 8,461</u>
Net Income (excluding interest)	\$41,331	\$40,921

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

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

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

Expenses by Program and Category

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

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

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

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

EE Expenses

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

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

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

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

Refer to **Audit Issue #2**

Allocation of Expenses

Audit requested the specifics of how the CORE activity costs were allocated among the efficiency programs as well as by the activities within each program. 70% of all program costs are direct charged to the programs. The 30% of allocated expenses were verified to the general ledger and allocation spread detail provided by NHEC.

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

Specifically:

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

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

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

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

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

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

Labor and Benefits

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

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

Outside Services \$6,172

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

Evaluation \$38,440

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

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

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

Rebates & Services

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

Energy Star Homes \$49,453

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

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

Home Energy Solutions \$126,331

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

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

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

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

Energy Star Appliances \$75,813

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

Home Energy Assistance \$137,865

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

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

Energy Star Lighting \$67,710

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

NHEC Specific-Residential \$97,065

Residential Load Management is comprised of the following:

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

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

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

Large Commercial & Industrial \$116,676

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

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

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

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

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

Large Commercial & Industrial Retrofit \$54,408

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

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

Small Business Energy Solutions \$42,876

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

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

NHEC Specific \$20,228

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

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

NHEC Allocated Customer Service & Rebate

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

Balance Sheet Reconciliation

Audit reviewed the balance sheet reconciliation of the general ledger account(s) used to record the ongoing activity of the EE. Primarily NHEC uses account 254.40 as the tracking account for the activity related to the accrued revenue. The cumulative activity total since inception to the end of December 2008 was a credit balance of \$140,286. This indicates that over the six year period, the EE program has collected more revenue than has been used in the program.

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

Senate Bill 228

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

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

Audit Issue #1

kWh and SBC

Background

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

Issue

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

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

Recommendation

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

Company Comment

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

PUC Audit Comment

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

Audit Issue #2

Reported Expenses

Background

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

Issue

- \$333 noted in activity code 172 on the general ledger account 416.77 appears to be a posting error, as it is included in the general ledger but is not on the report and the activity code does not appear to be
- \$9,919 is a misposting of the payroll benefits to account 24.416.49 which should have posted to account 24.416.48. The total dollar amount does not change, but the allocation among the expense categories is incorrect.
- Marketing expenses are overstated by \$2,000 due to two factors. The first is the result of a duplicate payment to the Mt. Washington Valley Chamber of Commerce. The sponsorship invoice, in the amount of \$1,000 was paid twice on December 16, 2008, posting to account 24.416.65 Sales Expense Marketing. One entry had activity code 164 which is spread among all programs, and the other entry had activity code 165 which does not appear to be related to EE. The second issue is that the sponsorship is for 2009, not 2008.
- The adjustment of \$19,219 was identified by NHEC as postings in several general ledger accounts, representing labor, field salaries, etc. which posted to the general ledger with the wrong activity codes. As a result, the report to the PUC did not include this figure, as the reporting process at NHEC picks up the general ledger accounts and activity codes associated with EE. The allocation among the programs and cost categories must be determined by NHEC
- Benefits associated with payroll expenses of department code 68 were overstated for 2008 by \$15,804. The allocation among the programs and cost categories must be determined by NHEC.
- Finally, the adjustment of \$102 is an immaterial rounding error identified during the reconciliation process by the NHEC. Any allocation among the programs and cost categories must be determined by NHEC.

Recommendation

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

Company Comment

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

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

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

PUC Audit Comment

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

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

Audit Issue #3

Reported Forward Capacity Market Expenses

Background

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

Issue

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

Recommendation

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

Audit recognizes that the Accounting model used by NHEC for posting to the general ledger reflected the correct income, expenses and net activity for the period, and thus no accounting entry adjustment is recommended.

Company Comment

NHEC agrees with Audit's recommendation.

PUC Audit Comment

Audit concurs.

Audit Issue #4

Customer Rebates & Service Misposting

Background

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

Issue

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

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

Recommendation

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

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

Company Comment

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

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

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

PUC Audit Comment

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

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