

Liberty Utilities (EnergyNorth Natural Gas) Corp.
Final Audit Report
DE 12-262
2013 CORE Program

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 15, 2014

AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor

SUBJECT: Liberty Utilities (Energy North Natural Gas) Corp.
DE 12-262 - 2013 CORE
FINAL Audit Report

TO: Tom Frantz, Director, NH PUC Electric Division
Steve Frink, Assistant Director, NH PUC Gas/Water Division
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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, 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.

In accordance with Commission Order #24,630 in Docket DG 06-036, ENG provided the Commission with monthly summaries of expenses and recoveries related to the energy efficiency programs. For the 2013 program year, the monthly summaries were properly filed in the instant docket, DE 12-262.

Audit truly appreciates the assistance of Eric Stanley, Paul Kinch, Tina Poirier, Mark Savoie, and Sue-Ellen Bellici from Liberty Utilities. The Company provided access to all supporting documentation requested by Audit.

Approved 2013 Programs

The participating utilities submitted a joint energy proposal to the Commission on 9/17/2012 for the program years 2013 through 2014. Approval of a two-year proposal was designed to support the consistent delivery of certain weatherization programs during the heating season, which crosses calendar years. 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 ENG's 2013 energy efficiency programs:

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-heating, hot water equipment and controls

Residential Building Practices and Demonstrations Program (Tech Demo)

Commercial and Industrial

Large Business Energy Solutions Program

Small Business Energy Solutions Program

Educational Programs

Program Updates for 2013

As a result of the SB323-VEIC Independent Study of Energy Policy Issues, the CORE programs have incorporated the following recommendations made by the Energy Efficiency and Sustainable Energy Board (EESB Board) (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 Energy Star Homes Programs;
- increase Electric budgets by \$6 million to reflect additional RGGI fund, as a result of House Bill 1490 passed on 6/23/2012; set aside 15% of the budgets for HEA.

PSNH, UES, and NHEC (electric utilities) have collaborated with the New Hampshire Community Development Finance Authority (CDFA) and the BetterBuildings Program. Homeowners enrolled in the HPwES program are eligible to receive rebates on certain measure, with 50% (up to \$4,000) of the rebate funded by the SBC, and the other 50% of the rebate funded through the BetterBuildings program. Homeowners may also utilize BetterBuildings funds for on-bill financing. The CDFA grant period ended 4/30/2013.

Mid-Year Adjustments

On 7/22/2013, the Company requested approval to use \$189,576, the unused 2012 Home Energy Assistance (HEA) budget, in 2013. The request was supported by the NHPUC Staff, via letter to the Executive Director, on 9/23/2013.

On 12/10/2013, ENG notified the Commission of the following transfers between CORE programs:

<u>Program</u>	<u>Budget</u>	<u>20% Cap</u>	<u>Amount Transferred</u>	<u>% Transferred</u>
Small Business	\$1,093,289	\$218,658	\$(218,658)	20%
Large Business	\$1,184,397	\$236,879	\$ 218,658	18%

Filing Summary

Expenses

Demand Side Management (DSM) expenses for the year ending December 31, 2013 as reported on 6/3/2014 were \$4,624,462.

Subsequent to the June reporting, the Company identified \$4,392 of additional expenses which had not been included in the original total. The revised reported total was identified as \$4,628,854. The change represents an increase of 0.095% which is immaterial.

A spread among the programs and expense types was provided to Audit on 5/13/2014 and updated with the preliminary adjusted June incentive calculation package reflecting the following:

	<u>Internal</u>	<u>External</u>	<u>Rebates/</u>	<u>Internal</u>				<u>Dec 14, 2012</u>	<u>2013</u>	<u>Actuals as</u>
	<u>Admin.</u>	<u>Admin.</u>	<u>Services</u>	<u>Implmntn.</u>	<u>Marketing</u>	<u>Evaluation</u>	<u>TOTAL</u>	<u>Budget</u>	<u>Adjustments</u>	<u>% of Adjusted</u>
										<u>Budget</u>
Energy Star Homes	\$ 7,333	\$ -	\$ 5,319	\$ 11,236	\$ 5,953	\$ 2,650	\$ 32,491	\$ 90,000	\$ -	36%
Home Performance w/Energy Star	\$ 70,799	\$ -	\$ 487,175	\$ 33,011	\$ 25,929	\$ 22,828	\$ 639,742	\$ 730,000	\$ -	88%
Energy Star Appliances	\$ 31,908	\$ -	\$ 599,969	\$ 18,582	\$ 5,058	\$ 22,459	\$ 677,976	\$ 730,000	\$ -	93%
Home Energy Assistance	\$ 28,928	\$ -	\$ 949,605	\$ 38,484	\$ 1,960	\$ 21,359	\$ 1,040,336	\$ 750,000	\$ 189,576	111%
Residential Bldg Practices/Demo	\$ 1,398	\$ -	\$ 31,753	\$ -	\$ 194	\$ 15,416	\$ 48,761	\$ 70,000	\$ -	70%
TOTAL RESIDENTIAL	\$140,366	\$ -	\$ 2,073,821	\$ 101,313	\$ 39,094	\$ 84,712	\$ 2,439,306	\$ 2,370,000	\$ 189,576	95%
C&I Education	\$ 615	\$ -	\$ 16,065	\$ 3,069	\$ 24,295	\$ 682	\$ 44,726	\$ 32,314		138%
Large Business Energy Solutions	\$ 65,345	\$ -	\$ 1,182,170	\$ 45,572	\$ 80,548	\$ 48,936	\$ 1,422,571	\$ 1,184,397	\$ 218,658	101%
Small Business Energy Solutions	\$ 60,432	\$ -	\$ 541,887	\$ 50,639	\$ 35,264	\$ 34,031	\$ 722,253	\$ 1,093,289	\$ (218,658)	83%
TOTAL C&I	\$126,392	\$ -	\$ 1,740,122	\$ 99,280	\$ 140,107	\$ 83,649	\$ 2,189,550	\$ 2,310,000	\$ -	95%
COMBINED Residential and C&I	\$266,758	\$ -	\$ 3,813,943	\$ 200,593	\$ 179,201	\$ 168,361	\$ 4,628,856	\$ 4,680,000	\$ 189,576	95%
% of total dollars	5.76%	0%	82.39%	4.33%	3.87%	3.64%	100%			

The overall actual expenses reported were 95% of the adjusted budgeted total. The supporting spreadsheets provided to Audit agree with the reported total expenses identified in the updated shareholder incentive calculation. However, across expense

types in all 2013 programs, the comparison of actuals vs. budget shifted dramatically. The Company informed Audit that the budget figures improperly assumed allocations of certain costs, such as the posting of expenses to External Administration rather than to Rebates/Services.

Audit reviewed the expense categories and noted the following among the five residential and three C&I programs:

<u>Cost Category</u>	Range of	<u>Overall Actuals as % of Budget</u>
	<u>Actuals as % of Budget High-Low</u>	
Internal Administration	102% - 6%	71%
External Administration	(100%)	(100%)
Rebates/Services	186% - 9%	76%
Internal Implementation	139% - (100%)	47%
Marketing	220% - (100%)	150%
Evaluation	440% - (100%)	72%

The Company noted that the budget should be more representative of anticipated costs and should be “significantly closer” to the actual expenses in the coming years.

The External Administration category was intended to reflect costs associated with programs such as those in the Low Income and Home Performance with Energy Star. The costs incurred by third parties, such as the Community Action Agencies, which include audits and administrative expenses of 10% of the rebate, in addition to rebates, were reflected in the rebates total. Refer to the Low Income Home Energy Assistance portion of this report for further information.

Marketing costs were significantly higher than budgeted. Refer to the Expenses section of this report for detailed review. The Company noted that due to the change in ownership in July 2012 from National Grid to Liberty, Liberty actively marketed its programs in an effort to address customer confusion.

General Ledger Detail

Audit verified the 2013 Rolling Fund Balance from the monthly reports filed in docket DE12-262 to:

1/1/2013 beginning	\$ (962,888) agrees with prior audit
2013 revenue collected	\$(1,882,559)
2013 expenses	\$ 4,624,462 per monthly reports
2013 estimated incentive	\$ 261,600
2013 interest	\$ (7,137)
12/31/2013 balance per Monthly Reports	\$ 2,033,478 under-collection at year-end
GL 8840-2-0000-10-1163-1755 12/31/2013	\$ <u>1,805,727</u>
Timing variance Monthly Rpt vs. GL	\$ 227,751 refer to the table below

The Wennsoft Financial Reporting system is a system report by code. Wennsoft is the basis for the expenses reported. If manual journal entries are made to the Great Plains general ledger (now known as Microsoft Dynamic), there may not be the necessary system code associated with it. As a result, the monthly reports provided to the Commission may not reflect all of the actual adjusted costs. Audit was provided with the Energy North Gas Company Account Reconciliation for account 8840-2-0000-10-1163-1755, Deferred Peak Reserve DSM, which reflects the ending balances for 2013 as follows:

<u>Year End</u>	<u>per GL</u>	<u>per Reports to PUC</u>	<u>Difference</u>
12/31/2013	\$1,805,727	\$2,033,478	\$(227,751)
'12 corrections	\$ (3,696)	-0-	\$ (3,696)
Adjust for miscode	\$ 4,391	-0-	\$ 4,391
Prior yr adjustment	\$ 409,949	-0-	\$ 409,949
'13 Expenses 1/14	<u>\$ (178,503)</u>	<u>-0-</u>	<u>\$(178,503)</u>
Reconciled balance	\$2,037,867	\$2,033,478	\$ 4,392

The \$4,392 (rounded) represents the adjustment for the miscoding identified by the Company in June 2014, after the monthly reports provided to the PUC.

The 12/31/2013 under-collection of 2,033,478 was verified to the monthly activity report submitted to the Commission on 3/28/2014. The report for the period through 12/31/2013 incorporated the various audit adjustments resulting from the program year 2012 audit.

Audit reviewed the 2013 activity through the monthly reports submitted to the Commission in compliance with DG 06-036 and noted as filed in DE12-262.

Revenue - \$1,882,559

Audit reviewed the monthly reports provided to the Commission in the instant docket and noted therm sales by Residential sector and therm sales by C&I sector. Audit noted the accurate use of the approved Energy Efficiency rates as authorized by Commission Order 25,435 issued on October 30, 2012 in docket DG12-265, the 2012-2013 Winter Cost of Gas proceeding.

Audit requested billing system support for the reported therms for the months of July 2013 and December 2013. From January through August 2013, the billing system used was the CRS (National Grid system). In September 2013, ENG converted to the Cogsdale billing system, exclusive of National Grid. Per the Company, Cogsdale calculates customer invoices which are processed and printed from Fiserv, the Company's billing service provider.

The July 2013 CRS report was reviewed for consistency of the reported total therms billed. Audit recalculated the revenue for the month using the CRS report of therms multiplied by the Commission approved rate. There were no exceptions noted.

Audit reviewed the entire year's representation of therms sold and revenues collected, and was provided with a detailed summary of the calculation of revenues for the months of November and December. In those months, customers' invoices roll the changeover from summer to winter cost of gas rates, thus the flat therm sales could not be multiplied by the flat monthly rates in effect. The Cogsdale billing information known as the Liberty database is reviewed and verified to the Great Plains general ledger daily. Audit was provided with a download of the Revenue Consumption file for the months of September 2013 through May 2014.

Interest - \$7,137

Interest was properly calculated at 3.25% on the average monthly balance, including interest from the previous month.

EXPENSE REVIEW

Expenses were verified to the summary of expenses provided in the detailed Excel pivot table. Expenses are debited to general ledger account #8840-2-0000-69-5390-9080 and credited to the balance sheet #8840-2-0000-10-1163-1755. Audit selected a sample of the expenses for detailed review. Those results are summarized below.

Expenses which are allocated among energy efficiency programs and between EnergyNorth and Granite State Electric are based on budget percentages. The following Marketing expenses were reviewed:

Aramark was paid \$1,333. The cost was noted as a Marketing expense for ENG only. Audit requested clarification of the expenses and was told that it represented "*Liberty Utilities' branded clothing for Energy Efficiency employees attending the various home shows in NH during the year*". This expense should have been booked as a *miscellaneous expense, rather than an energy efficiency expense*. **Audit Issue #1**

Consolidated Marketing was paid \$5,006 which was split \$2,502 to GSE and \$2,504 to ENG. Audit requested clarification of the expenses and was told that the funds were used to purchase marketing supplies and materials for use during home show and trade events.

Fletcher Media was paid \$3,755 split between GSE \$3,095 and ENG \$660 for updates to the NHSaves.com website and for the design of the Energy Star lighting print catalog. The \$660 was used for lawn signs on completed Energy Star Homes projects.

Gary Chicoine Construction was paid \$5,400 which was split in ENG between Rebate \$3,000 and Marketing \$2,400. The Marketing identification was an input error and should have been noted as part of the rebate.

GDS Associates received a total of \$56,448 which was allocated between GSE and ENG and among Marketing, Rebates, External Administration-Rebates, and Internal Administration. The Marketing for GSE was \$5,046 and for ENG \$4,963. The Marketing costs include energy code workshops at which the Energy Star Homes and C&I New Construction programs were promoted.

Greater Manchester Chamber of Commerce was paid a total of \$1,000. The GSE Marketing portion was \$310 and the ENG Marketing total was \$570 with \$120 noted as Rebate. The entire invoice should have been coded as Marketing, as it was for booth placement at the 2013 Tri-City Expo at which both electric and gas efficiency programs were promoted.

Horizon Residential Energy Services NH, LLC was paid a total of \$188,336 allocated between GSE \$43,368 and ENG \$144,968 and among Marketing and Rebates for both companies. GSE Marketing was allocated \$2,000 and ENG included the Marketing/Rebate combined identifier at \$26,068. The costs were noted in the Residential Audit and Weatherization program, the Tech Demo, the Energy Star New Home Construction, and the Home Energy Assistance programs. Horizon pays HPwES contractors for weatherization work, and they receive funding for scheduling, inspecting, billing and reporting HPwES services. Tech Demo expenses include rebates for the Early Boiler Retirement program and interest rate buy-downs. The Company is affiliated with two banks which allow the customers to finance energy efficiency measures, with the CORE program paying the interest such that the loan rate for the customer is 2%. The Company is not a co-signer of the loan and is not responsible for the principle if the debt is not paid.

Ideas Agency, Inc. was paid a total of \$99,722 and was split between GSE \$27,728 and ENG \$73,255 and noted as Internal Implementation costs and Marketing Costs. The Company indicated that *“Ideas Agency Inc. is a specialized marketing and communications vendor Liberty Utilities has utilized for the development of marketing support materials, and various advertising communications activities. Examples of their work for Liberty Utilities include program application forms and print collateral, direct mail and email communications and event materials.”* Audit reviewed an invoice related to giveaways such as screwdrivers, stuffed animals, bags, among other items, with the Liberty logo and energy efficiency website noted on them. In addition, the Company indicated that it *“participated in over 40 days of customer and trade events in 2013 where the focus was promoting the CORE electric and gas energy efficiency programs in the marketplace, including one-on-one interactions with customers. During these events, the Company’s energy efficiency staff members interacted with potential customer program leads and distributed materials including program summary sheets, brochures and promotional items to drive traffic to the Company’s dedicated energy efficiency program microsite, www.libertyutilities.com/efficiency. All promotional items, with the exception of hats, including pens, water bottles, bags, and magnet clips, included a reference link to the Company’s dedicated energy efficiency program microsite, www.libertyutilities.com/efficiency. The Company manually counted over 4,000 customer interactions during these events and saw an increase in website traffic and program leads to both its residential and commercial programs after these events.”*

Industrial Protection Products was paid \$145 from the ENG Marketing cost only for safety gear necessary for visits to customer construction sites. The gear includes safety shoes, vests, hard hat and safety glasses.

Joyce Heating and Cooling was paid \$500 from ENG only as part of a promotional installation of two Wi-Fi thermostats at two customers' premises who had had weatherization measures installed.

The Jordan Institute was noted in ENG only and was paid \$500. Audit requested clarification of this expense and was told the mission of the organization and that the sponsorship assists Liberty with Commercial and Industrial customer referrals to the energy efficiency programs.

New England Grass Roots Environmental was paid a total of \$5,000. GSE was allocated \$1,650 which was reflected as an Evaluation cost, while ENG was allocated \$3,350 which was reflected as a Marketing expense. The Company indicated that the \$5,000 was incurred for sponsorship of the Local Energy Solutions conference. The Company also noted that the GSE allocation as an Evaluation cost should have been coded as a Marketing expense.

New Hampshire Public Radio was paid a total of \$4,950 for air time advertising the energy efficiency programs of both GSE \$2,000 and ENG \$2,950.

Ram Marketing was paid \$10,000 from ENG only for providing outbound calls to customers to generate project leads for the C&I gas programs.

Northern Show Management was paid \$7,320 split between GSE and ENG, and among all programs, noted as Marketing expenses. One invoice dated 9/6/2013 reserved a booth for the Nashua home show for January 25-26, 2014. The amount on the invoice \$995 was allocated ENG \$697 and GSE \$298. **Audit Issue #1**

ESource - \$35,270

The Company indicated that ESource is a subscription based membership service to which EnergyNorth and Granite State Electric subscribe, providing research, evaluation, and technical support for energy efficiency programs. Audit reviewed an invoice in the amount of \$35,270 which reflected \$22,520 for a Residential Marketing Service module and \$12,750 for a 14 month DSM Service spanning the period 11/1/2013 through 12/31/2014. The entire invoice amount was included in the 2013 program year for both ENG and GSE with the allocation of \$24,649 and \$10,621 respectively. Based on a review of the invoice, the allocations should be:

Utility	Total	Allocate to 2013	Allocate to 2014
ENG	\$24,649	\$3,522	\$21,127
GSE	<u>\$10,621</u>	<u>\$1,517</u>	<u>\$ 9,104</u>
	\$35,270	\$5,039	\$30,231 Audit Issue #1

New Hampshire Sustainable Energy Association was paid \$1,000 for ENG Marketing with none allocated to GSE. The total represents an annual membership fee of \$500 for 2013 and for 2014. The 2014 figure should not have been included in the 2013 program year. **Audit Issue #1**

New Hampshire Lodging and Restaurant Association was paid \$449 which was identified as an ENG Marketing expense only for sponsorship of an NHLRA event and full page promotional advertisement.

Northeast Sustainable Energy Association was paid \$555 from ENG only for one business membership in the amount of \$500 and one individual membership in the amount of \$55. It was unclear why an individual membership was purchased as the benefits of the business membership were outlined by the Company. Liberty informed Audit that the two types of memberships were purchased “to allow three staff members to take advantage of the membership discounts at the same NESEA event. The business membership provides a discount on registrations for two people and the individual membership provides a discount for one person. There are seven people in the Liberty Utilities’ energy efficiency department therefore three can attend a NESEA event at the same time at the discount rate. The membership discount for NESEA Building Energy Conference is \$50 per individual membership and \$75 for each of the two business membership discounts.”

Home Builders and Remodelers Association of NH was paid \$1,465 with GSE allocated \$307 and ENG \$1,158. Audit was told that the cost purchased a booth at the NH State Home Show. Audit contacted the Association and was informed that an annual membership of \$475 was paid as was \$7,500 relating to a home show. The Company indicated that a portion of the Liberty marketing costs are also used to promote the Liberty brand in general, and a portion of the home show cost was therefore booked to administrative marketing expense, rather than to the CORE programs completely.

Southern NH Home Builders and Remodelers Association of NH is an affiliate of the HBRANH above. This company was paid \$625 for participation in the southern chapter’s regional event at which the Energy Star Homes program was promoted. ENG was allocated \$455 and GSE \$170.

Plumbers Fuel Gas Fitter & HVAC was paid \$150, charged to ENG for Marketing. Audit questioned the amount, as a membership fee per the online information available, was \$30. The Company indicated that it had provided sponsorship of one of the meetings at a cost of \$50 and became an “affiliate member” at a cost of \$100. Audit is unaware of the timeframe of the membership.

Plymouth Area Renewable Energy Initiative (PAREI) ENG \$12,041 GSE \$6,500
Liberty is a member of the PAREI with membership costs spread among programs and between EnergyNorth and Granite State Electric. Neither GSE nor ENG has service territory in Plymouth. Audit questioned the reasoning for the membership in the Plymouth Area Renewable Energy Initiative, as opposed to the Berlin Area Renewable Energy Initiative or the Hillsboro Area Renewable Energy Initiative, and was informed that the PAREI provides a valuable service around the state, most specifically, Button Up NH workshops. Audit reviewed the PAREI website and calendar for 2013 and noted several workshops throughout the state and throughout the year.

Costs were recommended for approval by a Liberty representative who is affiliated with PAREI and was formerly a director (prior to 2008). Invoices recommended for approval are reviewed and approved for payment by Liberty’s manager of energy efficiency.

Costs incurred relating to the PAREI included “Housewarmings” which did not occur, and as a result the funds were approved by Liberty to be held by PAREI for future Button Up NH workshops. The total reviewed for which this was noted was \$5,000 (1/17/2013 invoice). While the timing of the invoice relates to the current 2013 program year, the funds were not used for the purpose noted on the invoice.

Audit noted that the Button Up NH workshops held around the state were in a variety of locations such as libraries, churches, town halls, and non-profit organizations. Audit noted on the PAREI calendar that those workshops sponsored by Liberty allowed for a portion of the Button Up NH fee paid by Liberty to be donated to the entity hosting the event. Specifically, \$10 per Liberty customer could be paid to the entity hosting the workshop. There were six workshops in 2013. A total of \$320 (thus representing 32 Liberty customers) was donated by PAREI to the six hosts for 2013.

Invoices paid in 2013 for workshops and home shows in 2014 were included in program year 2013 expenses. Specifically, invoice dated 11/13/2013 \$2,810 for GSE and \$6,041 for ENG. The \$8,851 for Liberty represents 21.7% of the overall costs of \$26,962 with the remainder spread among the other utilities, all of which booked the costs to the 2014 program year. See Audit Issue #1.

2013 Membership in the amount of \$500 exceeds the amount noted on the sponsorship form which lists \$150 as the Local Community Partner sponsorship level. An additional \$350 was noted as an additional contribution, with a handwritten note that the \$500 is a corporate sponsorship rate. Further, there is included \$500 for 2014 in the 2013 program year. See Audit Issue #1.

Audit Issue #1 Audit recommends adjusting the 2013 PAREI totals by:

	ENG	\$12,041		GSE	\$ 6,500
2014		\$ (6,041)		2014	\$(2,810)
2013 addtl contrbt		\$ (350)			
2014 membership		\$ (500)			
Adjustment Total		\$ (6,891)			\$(2,810)
Revised 2013 PARE		\$ 5,150			\$ 3,690

Residential Energy Performance Association (REPA) - \$425 GSE \$125, ENG \$300

Audit reviewed the membership fees for the REPA and noted that the fee for one person for one year was \$125 in 2013. The \$125 was posted to GSE in 2013. The \$300 posted to ENG represented membership for two people for 2014, and should thus not have been included in the 2013 program year. **Audit Issue #1**

Sustainable Energy Resource Group (SERG) - \$3,400 GSE \$2,200 ENG \$1,200

Payments to the SERG were comprised of sponsorship at the “Zero Energy Zealot” level of \$1,000 and \$1,200 for sponsoring an electric C&I Education class entitled “Energy

Issues in Existing Homes and Business: What Real Estate Professionals Need to Know”. The total of \$2,200 was posted to GSE. The ENG \$1,200 sponsored a second class for Gas (Residential) with the same title: “Energy Issues in Existing Homes and Business: What Real Estate Professionals Need to Know”.

Questline was paid \$44,820 (allocated to ENG only) for the setup and distribution of monthly energy efficiency email newsletter programs to Liberty natural gas customers. The expenses were noted as Marketing.

US Green Building Council NH was paid \$500, allocated to ENG Marketing, for sponsorship of an event at which the C&I energy efficiency programs were promoted.

C&I Education \$44,726

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.

During 2013, ENG reported \$44,726 of expenses associated with the C&I Education program. Audit selected one item in the amount of \$16,056 for review, or 36% of the total program costs. The Company provided an invoice in the amount of \$21,078 and allocation of Ideas Agency, Inc., invoice dated 11/26/2013. The invoice was for letters, postcards, and landing pages included charges for creative production and mailing. The invoice was allocated to Marketing expenses in the following programs:

C&I Education	\$16,056
Small Business	\$ 2,511
Large Business	<u>\$ 2,511</u>
	\$21,078

Liberty uses Ideas Agency, Inc., as the “*main marketing company...for the creation and printing of forms, marketing and education strategies, mailings and home show type giveaways.*”

Large Business Energy Solutions Program

Noted in the 9/17/2012 filing (page 38) and the 12/4/2012 update, this program is designed for electric customers with a twelve month average demand of 200kW or an average annual energy usage of 40,000 therms or more for gas customers. Program customers will receive rebates for new construction, major renovations, failed equipment replacement, replacement of inefficient equipment, and gas customers who use natural gas to heat the facility or have food service operations. 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 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. Audit was informed that for 2013, there were no Energy Efficient School initiatives done, due to lack of demand.

C&I Large Business Evaluation -\$48,935

Audit selected one item in the amount of **\$12,795** for review. The transaction description indicated “*split invoice e-Track Phase II*”. Liberty noted that “*ANB Enterprises, Inc. was selected... via a competitive RFP process to build a replacement tracking and reporting system [for] National Grid’s InDemand tracking and reporting system. Liberty Utilities is leveraging ANB’s eTRACK software to facilitate all program tracking, evaluation, savings computations, PUC and ISO-NE reporting and metric tabulation. Allocation [to] the 16 EE programs is based on the percentage of monies for each program.*” The \$75,000 invoice, representing 50% completion of the installation process, was allocated among all Energy North as well as Granite State Electric energy efficiency programs in the following manner:

Granite State Electric:

8830-EEE02-C&I Large Business	\$ 7,185	
8830-EEE02-C&I Small Business	\$ 5,490	
8830-EEE02-Residential Appliances	\$ 2,528	
8830-EEE02-Res Audit & Weatherization	\$ 1,793	
8830-EEE02-Residential Lighting	\$ 1,103	
8830-EEE02-Residential Low Income	\$ 3,360	
8830-EEE02-Residential New Construction	\$ 743	
8830-EEE02-C&I Education	\$ 195	<u>\$22,395</u>

Energy North Gas

8840-EEG02-C&I Education	\$ 353	
8840-EEG02-C&I Large Business	\$12,795	
8840-EEG02-C&I Small Business	\$11,813	
8840-EEG02-Residential Appliances	\$ 7,883	
8840-EEG02- Res Audit & Weatherization	\$ 7,883	
8840-EEG02-Residential Tech Demo	\$ 758	
8840-EEG02-Residential Low Income	\$10,148	
8840-EEG02-Residential New Construction	\$ 975	<u>\$52,605</u>
Invoice Total	\$75,000	\$75,000

Audit reviewed the total paid to ANB Enterprises during 2013, \$244,156, which was split between GSE \$74,527 and ENG \$169,629. The allocation among the CORE programs was noted, as was the allocation between Internal Administration and Evaluation for each of the programs.

Audit requested clarification of the on-going costs relating to ANB and the start-up costs incurred during 2013. Of the \$244,156, monthly hosting charges of \$1,000 per month were incurred. The remaining \$232,156 was incurred for: establishing the reporting system, integration of historical data from National Grid’s InDemand system,

integration of customer energy usage data from the Company's billing system, and beginning of the integration with the Liberty accounts payable system. During 2014 and 2015 the monthly hosting charge will be \$1,500. As of the date of this report, the outstanding integration to be completed was with the financial system.

C&I Large Business Rebates - \$1,182,170

The Large Business Energy Solutions Program, as noted in the 9/2012 filing and 12/2012 revision targets natural gas customers with an average annual energy usage of 40,000 therms, or more. Rebate amounts for gas retrofit projects are authorized to be the lesser of a one year payback or up to 50% of the equipment and installation costs.

Two entries in amounts of \$430,020 and \$250,000 were selected for review, representing 58% of the total rebates. Both items represented payments to Velcro USA, Inc. The entries represent a phased installation of a high efficient chiller replacement. The \$430,000 represents 50% of the estimated project cost for phase I. The actual cost of \$904,866 resulted in the \$430,000 representing 48% of the project cost. The project was started in April 2012 with final completion and inspection in December 2012. The cost noted in 2013 was offset by a reversal to ensure that the funds and related savings were included only in the 2012 shareholder incentive calculation. No exception.

The phase II 2013 portion of the project resulted in total cost of \$867,500. At 50%, the rebate could have been \$433,750. The 2013 rebate paid to Velcro was capped at \$250,000 due solely to the number of customer projects and limited funding. No exception.

C&I Large Business Internal Implementation - \$45,308

Audit selected two entries in the amounts of \$8,658 and \$2,777. They posted to Wennsoft in October 2013 and June 2013 respectively. The selection represents 25% of the total C&I Large Business Internal Implementation. The journal entry support provided to Audit indicated that the entries represented labor, split from Transition Services Agreement (TSA), Liberty payroll, and bonus accrual.

C&I Large Business Marketing - \$78,481

Audit requested clarification of the various entries associated with Business and Residential Relationship Builder and was told that Relationship Builder, through Questline, provides a marketing monthly newsletter and informational services to C&I and Residential customers for whom Liberty has email addresses. The service provides energy efficiency topics and information to promote the programs. Audit requested support for Business Relationship Builder entries and was provided with a Questline invoice in the amount of \$44,550. The full invoice was noted in the C&I Large Business Marketing total. The invoice is an annual service from 12/18/2013 through 12/17/2014. The invoice was divided into the following:

Relationship Builder Business Accounts Solution	\$11,400
Additional Social Media Services	\$ 8,600
Relationship Builder Residential Solution	<u>\$24,550</u>
Total Invoice dated 12/18/13	\$44,550

Audit reviewed the activity within all of the programs' Marketing segments, and none of the Additional Social Media or Residential Solution had been allocated out of the C&I Large Business Marketing. Further, because of the payment manner used by Liberty, the full annual cost of a marketing subscription that covers primarily the program year 2014 was included in the 2013 actual expense totals. Therefore, the C&I Large Business Marketing expense total appears to be overstated, while the Residential Marketing expense appears to be understated. Audit understands that the overall Marketing expense does not change.

Audit also requested clarification of two entries in the amount of \$1,461 each. Audit was told that the invoices from Ideas Agency, for combined gas and electric banner advertising campaigns, were split among the gas large business and small business, and the electric large business and small business marketing categories. One of the entries represented a correction of a mispost to the electric. The entry moved the \$1,461 out of Granite State Electric's program into Energy North's program. Supporting documentation was provided.

Small Business Energy Solutions Program

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 or 40,000 therms. 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 50% for gas customers (35% for electric customers) or a one year payback.

Small Business Evaluation - \$34,031

Audit selected three invoices paid to ANB which sum to \$16,065. The invoices represent 47% of the Evaluation total. One, in the amount of \$11,813 is discussed earlier in this report as part of the C&I Large Business Evaluation. Documentation for the two smaller invoices was provided and reviewed without exception.

Audit reviewed eight ANB invoices in total, with the split among all programs in both the electric and gas utilities noted. For ENG, a total of \$21,764 relating to ANB posted to Small Business Evaluation expenses, while \$14,808 posted to Small Business Internal Administration.

Small Business Rebates - \$541,887

Audit requested clarification of the forty-one entries noted as paid to Rise Engineering, summing to \$96,308. The Company explained that *“Rise Engineering provides technical assistance, energy assessments and direct install for our Gas and Electric C&I programs throughout the year”*. Average rebate was calculated to be \$2,349.

Audit requested clarification of twenty-four entries paid to River Energy Associates summing to \$12,517. The Company explained that *“River Energy Associates is the administrator of the GASNETWORKS program for marketing the gas prescriptive Programs for the gas utilities in NH & MA. River Energy Associates coordinates contractor training and equipment supplier / distributor program material distribution”*.

Audit requested clarification of sixteen entries, each in the amount of \$8,800 which was paid to GP/Nashua d/b/a Canterbury Gardens, for a total of \$140,800. The Company explained that *“GP/Nashua d/b/a Canterbury Gardens is a 16 building complex in Nashua. The 16 entries are for rebates provided for each of the buildings boilers and indirect hot water heaters installed. An example of the rebate for one building...”* was provided to Audit for review. The documentation included the completed 2013 Natural Gas Commercial Application for rebate and an attachment indicating that the measures were condensing boilers, with an installed cost of \$40,900 and rebate of \$8,000 and an indirect water heater (no referenced installed cost) and a rebate of \$800. A copy of the plumber’s invoice for replacing the boiler at the building indicated on the rebate application supported the \$40,900.

Audit requested supporting documentation for \$6,473 paid to the Derryfield Village/Southern NH Services. The weatherization documentation provided indicated roof/attic insulation and air sealing added to a multi-family existing building. The Company stated that *“Derryfield Village is a commercial single master metered account, for low income housing apartments subsidized by the federal government’s Housing and Urban Development division. For this reason, Southern NH Services helped with the energy efficiency project for weatherization and air sealing”*.

A rebate in the amount of \$3,995 paid to Flir was reviewed. The invoice represented the purchase by Liberty of an infrared camera to be used when field personnel examine customer facilities for weatherization.

Small Business Internal Implementation - \$50,639

The pivot table supporting this figure was comprised of weekly entries of “customer assistance expenses”. Audit requested clarification of how many employees work on the Small Business program, and how the labor is allocated. The Company indicated that there are a total of six employees in the Energy Efficiency division of Liberty who have their time allocated. Labor is allocated based on each program and expense category, using the 2013 budget as the basis for the percentages.

Small Business Marketing - \$35,264

Audit requested supporting documentation for three companies who were paid a total of \$32,134, representing 91% of the Marketing expense.

\$10,000 paid to Ram Marketing was verified to an invoice dated 12/4/2013 for telemarketing for C&I Energy Efficiency Project-outbound calls, reports, list management, time and territory management, forwarding leads, training, among other tasks. 100% of the invoice was booked to the Small Business Marketing, although the invoice indicates C&I generally. None of the invoice was allocated to the Large Business program.

Audit noted seventeen entries summing to \$21,275 paid to Ideas Agency. As noted in the Marketing portion of this report, The Company indicated that *“Ideas Agency Inc. is a specialized marketing and communications vendor Liberty Utilities has utilized for the development of marketing support materials, and various advertising communications activities. Examples of their work for Liberty Utilities include program application forms and print collateral, direct mail and email communications and event materials”*.

Audit noted six entries summing to \$859 paid to Aramark Uniform and Apparel. Audit requested clarification of these expenses and was told that this expenses represented *“Liberty Utilities’ branded clothing for Energy Efficiency employees attending the various home shows in NH during the year”*. **Audit Issue #1**

Small Business Internal Administration - \$60,432

Audit requested clarification of forty-nine entries summing to \$5,714 paid to Balance Professionals. Balance is a temporary staffing agency. Audit requested how many Balance Professional temporary workers were used during the 2013 CORE program year, how their hours were reviewed and allocated, and the reason any temporary workers were necessary. In response, the Company noted that they *“hired one temporary employee to assist with all energy efficiency invoice processing and accounts payable activities while the company has been transitioning to automate its invoice handling process through its new tracking and reporting system, eTRACK”*.

Audit also reviewed seven invoices from ANB summing to \$14,808. Refer to the Large Business discussion of ANB earlier in this report.

Residential Energy Star Homes Program

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. The electric and gas utilities will coordinate to provide rebates for high efficiency gas HVAC equipment.

Residential Home Performance with Energy Star (HPwES)

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, and *“the gas utilities will continue to serve their customers. Gas customers participating in the HPwES program can receive an incentive of 50% up to \$4,000 from their electric company in addition to the \$4,000 incentive from their gas company. This would apply after they reach their \$4,000 maximum from their gas company. The goal is to provide gas customers with an opportunity for deeper savings and to allow gas customers to take advantage of their paying into the electric SBC fund. This would also allow the gas and electric utilities to determine customer interest in doing “deep retrofits”.”*

HPwES Evaluation

Audit requested supporting documentation for one entry posted in December 2013 in the amount of \$4,578. The entry was paid to ESource. As noted in the discussion earlier, ESource is a subscription based service providing ENG with research, evaluation, and technical support. Refer to Audit Issue #1.

HPwES Internal Administration

Audit requested and was provided with supporting documentation to support the allocated \$11,721 paid to ANB. Refer to the Large Business discussion of ANB earlier in this report.

Audit requested and was provided with information relative to \$3,717 identified as Balance Professional. One temporary employee was hired to assist with all energy efficiency programs' invoice processing and accounts payable activities while the Company transitions from National Grid systems to the automated invoice processes and tracking/reporting system eTrack.

CDW Direct was paid \$848 for computer, design and audio visual equipment purchased by the Company for in-house marketing resources. The Energy Efficiency division partially offsets the Marketing division costs.

HPwES Marketing

Three expenses sum to \$704 were booked in 2013 but relate to 2012 activity. Refer to Audit Issue #1 which discusses timing of entries and the use of accrual vs. cash reporting.

Residential Energy Star Appliance Program

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.

Energy Star Appliance – Evaluation

Audit requested and was provided with supporting documentation related to an entry in the amount of \$7,883 for ANB eTrack development phase II. The amount represents 35% of the \$22,459 identified as Evaluation costs. For a detailed explanation of the ANB eTrack, refer to Large Business – Evaluation portion of this report.

Energy Star Appliance – Rebates

Audit selected two reversing entries and three rebates for review and documentation. A credit entry of \$230 and a credit entry of \$67,097 were reflected on the Wennsoft schedule of rebates on 1/1/2013. The credits were reversals of December accrual entries. Audit reminded the Company that there may be legitimate reasons for the Wennsoft and Great Plains general ledger to have variances (due to timing of postings, etc.).

The three rebates reviewed each were paid to Energy Federation, Inc. (EFI). EFI processes appliance rebates on behalf of Energy North. The first, in the amount of \$108,675 was verified to an invoice for \$110,713.

Mail-in Rebates Furnace/boiler	\$ 76,400	
Mail-in Rebates Combination Units	\$ 13,200	
Mail-in Rebates Thermostat	\$ 775	
Mail-in Rebates Water Heater	\$ 18,300	rebate total \$108,675
Processing Fees	\$ 952	
1% C.O.M. Fees	\$ 1,087	fee total \$2,038
Total Invoice	\$110,713	

The Processing fee and 1% C.O.M. fee were noted in the Wennsoft as External Administration expenses/Rebates. Audit requested and was provided with the EFI contract and pricing sheet. The contract was signed by EFI but not Liberty.

The second EFI rebate represented a total of \$56,888 representing:

Mail-in Rebates Reset Controls	\$ 225	
Mail-in Rebates Furnace/boiler	\$39,700	
Mail-in Rebates Combination Units	\$ 6,000	
Mail-in Rebates Thermostat	\$ 550	
Mail-in Rebates Water Heater	\$ 8,600	
Specific Customers' Additional Rebates	\$ 700	rebate total \$55,775
Processing Fees	\$ 545	
Manual Check Fees	\$ 10	
1% C.O.M. Fees	\$ 558	fee total \$1,113
Total Invoice	\$56,888	

The third EFI rebate represented a total of \$147,484 representing:

Mail-in Rebates Furnace/boiler	\$ 11,850	
Mail-in Rebates Combination Units	\$127,200	
Mail-in Rebates Thermostat	\$ 2,800	
Mail-in Rebates Water Heater	\$ 2,800	rebate total \$144,650
Processing Fees	\$ 1,387	
1% C.O.M. Fees	\$ 1,447	fee total \$2,834
Total Invoice	\$147,484	

The total of the three rebates reviewed, \$309,099 represents 51% of the \$599,969 rebate total for Energy Star Appliances.

Energy Star Appliance – Internal Administration

Audit selected five Internal Administration entries from the Wennsoft detail for review. The five sum to \$11,336 or 36% of the reported total \$31,908. Each of the entries represented allocation of ANB. Refer to the discussion regarding ANB in the Large Business portion of this report.

Energy Star Appliance – Internal Implementation

Audit requested clarification of how the internal implementation costs are determined and allocated, and was told that only direct labor is charged. Overheads do not follow the labor.

Energy Star Appliance – Marketing

Audit requested support for a December 2013 entry in the amount of \$2,639 paid to Ideas Agency, Inc. The amount represents 52% of the reported total \$5,058. Documentation provided was an invoice from Ideas Agency Inc., with a creative production charge of \$350 and a premium items list \$17,060 for a total invoice of \$17,410. The premium items list included the following, each with the Company logo, most with the energy efficiency web address, libertyutilities.com/efficiency:

- 300 screwdrivers with the logo and energy efficiency program web address
- 500 stuffed polar bears with the logo and energy efficiency program web address
- 216 tan LED light hats with the Liberty logo
- 120 tan regular hats with the Liberty logo
- 250 aluminum sports water bottles with the logo and energy efficiency web address
- 2000 drawstring backpacks with the logo and energy efficiency program web address
- 2000 house shaped magnet memo clips with the logo and energy efficiency web address

Residential Home Energy Assistance Program

Income qualified customers are eligible to receive up to \$5,000 for insulation, weatherization, cost effective appliance and lighting upgrades, and appropriate health and safety measures. Gas customers “may be eligible” for additional efficiency measures (see 9/17/2012 filing page 33).

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. Based on the budget in the 9/17/2012 filing (page 95), the HEA budget was calculated:

Commercial and Industrial Expenses	\$2,310,000	
Residential Expenses	\$2,370,000	
Commercial and Industrial Incentive	\$ 184,800	
Residential Incentive	<u>\$ 189,600</u>	
Budgeted 2013 Total Expenses	<u>\$5,054,400</u>	
15% of Total =	\$ 758,160	rounded in the filing to \$750,000

Budget	\$ 750,000
Approved Use of 2012 Carryover	\$ 189,576
Additional Funding	<u>\$ 100,760</u>
Total Funding/Expense	\$1,040,336

Audit reviewed the reported actual expenses for the HEA:

Internal Administration	\$ 28,928
Rebates and Services	\$ 949,605
Internal Implementation	\$ 38,484
Marketing	\$ 1,960
Evaluation	<u>\$ 21,359</u>
Total Actual Reported	\$1,040,336

Actual reported HEA expenses for 2013 represent 22% of the total reported actual expenses of \$4,628,856. The expenses include \$189,576 carried into 2013 from 2012, as requested by letter to the NHPUC Executive Director on 7/22/2013 and supported by a NHPUC Staff letter to the Executive Director on 9/23/2013.

An additional \$100,760, or 10.7% of the revised HEA budget, was used for Low Income without notification to and authorization from the Commission. Commission Order #24,109 issued on 12/31/2002 in docket DG02-106 states *“low income budgets are dedicated and those budgets cannot be siphoned away to other programs...[the gas companies] have no discretion to transfer funds to or from the low income programs without prior Commission approval.”*

The current filing and Commission approval of the same, by Order #25,462, supersede the prior requirement that transfers of funds into the HEA program require Commission approval. Nothing within the current filing eliminates the notification requirement regarding transfers of 20% or more.

Audit was informed that the Community Action Agencies did participate in a bidding process, and that statewide rates were negotiated. Audit was provided a copy of the rate sheet from PSNH acting at the lead, as well as from Liberty.

Audit reviewed two specific invoices encompassing 58 customers' rebates. Each posted through OTTER, the system used by the CAAs, and each included an administrative fee and a rebate fee associated with each customer. The administrative fee represented a home energy audit at the agreed cost of \$230 plus 10% of the actual rebate amount. Audit recalculated each. Some administrative figures were \$25.50 higher than the calculation. The Company indicated that the amount represented instant savings measures (ISM) installed as part of the gas program audit.

One invoice in the amount of \$149,078 included one customer rebate of \$9,447. The other 39 customer rebates included in the invoice were at or below the Commission approved \$5,000 cap. This invoice exceeded the cap by \$4,447, or 3% of the overall invoice total.

The second OTTER invoice, in the amount of \$52,964 included two customers who received rebates in excess of \$5,000. The seventeen other customers received rebates at or below the \$5,000 cap. The total in excess of the cap sums to \$4,496 or 8.5% of the overall invoice total.

Audit Issue #2 - Of the two invoices reviewed, both contained customer rebates in excess of the Commission approved \$5,000 cap. The total error noted was \$8,943, representing 4.4% of the combined invoices. Audit requested clarification of the excess and the Company's understanding of the Commission's Orders relating to the caps. The Company indicated that emergency boiler replacements must be done if an audit reveals that the customer would have the heat disconnected if the replacement is not done. The Company further noted that the ENG and GSE franchise territories do not overlap.

Residential New Construction Residential New Construction Evaluation

An entry in the amount of \$975 related to the ANB eTrack. Refer to the Large Business discussion of ANB for further information.

Residential New Construction Rebates

A rebate posted in November in the amount of \$3,000. The contractor was paid for construction of a home in Bow which was certified with a HERS Index of 54.

Residential New Construction Internal Administration \$7,333 and Internal Implementation \$11,236

Audit questioned both costs as high relative to the overall New Construction total of \$32,491. The Company noted that the employees' time and expenses were based "*proportionately to the programs being covered and their respective budgets*".

Residential New Construction Marketing

2013 sponsorship of the Northeast HERS Alliance, in the amount of \$500 was documented by an invoice from the Alliance.

Residential Tech Demo

Residential Tech Demo Evaluation

Audit requested and was provided with support for an entry in the amount of \$13,496 paid to Cadmus for a final invoice relating to a Wi-Fi tstat study (thermostat). The original study in the amount of \$40,496 was reduced by \$27,000 paid in 2012. The final bill of \$13,496 was paid in September 2013 for the period 3/2013 through 7/2013 for labor, final surveys, data collection and analysis, and final reporting.

Residential Tech Demo Rebates

Audit selected one rebate in the amount of \$28,900 representing nine individual early boiler replacement rebates of \$3,000 and one \$1,900. Horizon Residential Energy Services NH, LLC invoiced Liberty for the replacements.

Incentive

Audit requested a revised 2012 shareholder incentive calculation as part of the 2012 audit report issued on April 21, 2014. The Company submitted a revised incentive on May 19, 2014, filed in docket DE10-188. The adjusted calculation demonstrated actual incentives earned of:

Residential	\$232,194
Commercial & Industrial	<u>\$254,449</u>
Total 2012 Incentive	\$486,644
Amount booked in 2012	<u>\$383,998</u>
True-up of total 2012	\$102,646

Liberty estimated 70% of the total 2012 incentive \$548,568 to be \$383,998. The Liberty portion of the estimated incentive was identified in July, August, November and December and sum to \$223,949 which is 58% of the total estimated incentive. Audit requested clarification of the amount of the incentive taken by National Grid, and was told by ENG (Liberty) that none of the 2012 incentive had been taken by National Grid. The actual Liberty related 2012 incentives were reflected on the January 2014 monthly report, and updated thereafter for prior periods (refer to the May 2012 beginning balance on the February 2014 monthly report). A true-up of the Liberty portion of the 2012 incentive has not yet been booked.

ENG estimated \$261,600 as an incentive for the 2013 calendar year. As in 2012, the booked estimate represents 70% of the anticipated incentive of \$374,400, as outlined on page 95 of the 9/17/2012 filing. The Company will provide a revised 2013 Shareholder Incentive after conclusion of this 2013 audit. Audit requests the Company provide Audit with the specific entries for both years when the incentives are finalized.

Summary of Recommended Adjustments to the 2013 Activity

The 2013 reported expenses of should be adjusted by:

Original Reported Expense Total	\$4,624,462	refer to Page 3 and 4
Under-reported Expense	\$ 4,392	refer to Page 3 and 5
2013 Marketing Expense adjustments	\$ (30,848)	refer to Audit Issue #1
2013 Otter Invoice adjustment	<u>\$ (8,943)</u>	refer to Audit Issue #2
Adjusted 2013 Expense Total	\$4,589,063	

The revised fund balance for 12/2013, without recalculating the interest, would reflect:

1/1/2013 beginning	\$ (962,888)	agrees with prior audit
2013 revenue collected	\$(1,882,559)	
2013 expenses	\$ 4,589,063	adjusted as noted above
2013 estimated incentive	\$ 261,600	
2013 interest	<u>\$ (7,137)</u>	will change due to adjustment
12/31/2013 balance as adjusted	\$ 1,998,079	under-collection at year-end

The recommended adjustments will impact the calculated interest by an undetermined amount.

Once the adjustments are made, the Company should provide a revised shareholder incentive filing.

Audit Issue #1 Marketing Expenses

Background

Marketing expenses outlined in the filing and approved by the Commission are designed to promote the energy efficiency programs, through efficient and effective programs using ratepayer funds.

Issue

Audit reviewed several entries noted throughout the CORE programs as marketing expenses. Some included costs more appropriately reflected in the 2014 program year, and some did not appear to fulfill the intention of the Commission's approval of the marketing budgets. The following summarizes the marketing expense adjustments recommended by PUC Audit:

REPA-NH	(\$ 300)
PAREI	(\$ 6,891)
NH Sustainable Energy	(\$ 500)
Northern Show Management	(\$ 697)
ESource	(\$21,127)
Aramark	<u>(\$ 1,333)</u>
	(\$30,848)

Recommendation

The 2013 shareholder incentive calculation should be recalculated to exclude the adjustments noted. Audit reminds the Company that the program year costs are based on accrual accounting. It is understood that timing of invoices may result in payments made in one year which relate to activity in a subsequent year. However, the program year expenses should be reconciled to the general ledger and reported in that manner.

Audit does not believe that the branding of Liberty clothing for identification of Liberty personnel at home shows represents the marketing expenses contemplated in the filing, nor the efficient and effective use of ratepayer funds. Specifically noted in the 9/17/2012 filing, marketing for both Large Business and Small Business include marketing the programs *“through a number of strategies including one-on-one marketing by utility representatives, 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.”*

Company Comment

The Company will address each of the charges noted by the Audit Staff separately by vendor:

- REPA-NH
 - The Company agrees with the Audit Staff's recommendation in assigning the costs for the 2014 REPA memberships to the 2014 program year.
- PAREI
 - All services contracted by Liberty Utilities with PAREI were in support of the Company's Home Performance with Energy Star program and for services coordinated by PAREI specifically within Liberty Utilities electric and gas territories. The Company agrees with the Audit Staff's recommendation in assigning the costs for PAREI for services delivered in the Company's service territory in 2014 to the 2014 program year.
- NH Sustainable Energy
 - The Company agrees with the Audit Staff's recommendation in assigning the portion of the 2014 membership cost for NH Sustainable Energy to the 2014 program year.
- Northern Show Management
 - The Company agrees with the Audit Staff's recommendation in assigning the costs for Northern Show Management, for participation in the Nashua Home Show in January 2014, to program year 2014.
- ESource
 - The Company agrees with the Audit Staff's recommendation in assigning the costs for the E Source service for 2014 to the 2014 program year.
- Aramark
 - The Company submits that the expenses identified to Aramark were appropriate as they were used to purchase Company identifiable clothing for its employees to wear when performing energy efficiency services, including energy efficiency assessments, and pre-and post-energy efficiency services in customer homes and businesses. The clothing is also worn by employees when representing the Company at trade shows where energy efficiency services are being promoted to customers. It is important for Company employees to be readily identifiable to customers when they enter customers' homes, just as is the case with those employees who are providing gas or electric service to customers while wearing Company uniforms. The company performed over 40 customer and trade events during 2013, interacted with over 4,000 customers and generated numerous residential and commercial project leads. The Company believes having consistent, professional attire that clearly identifies its staff as Liberty Utilities employees when meeting with customers in the field provides trust and confidence. The logo-wear purchased is also not a recurring, annual expense as the Company would not have a need for purchasing logo-wear shirts for its staff members each year. Notwithstanding the Company's position that the costs were appropriate, the Company will not seek recovery of the cost.

Audit Response

Audit appreciates the clarification of each recommended adjustment and agrees with the Company's comments.

Audit Issue #2
Home Energy Assistance Expenses Exceeding Cap

Background

Audit reviewed two HEA/OTTER invoices.

Issue

One invoice in the amount of \$149,078 included one customer rebate in the amount of \$9,447. The other 39 customer rebates included in the invoice were at or below the Commission approved \$5,000 cap. This invoice exceeded the cap by \$4,447, or 3% of the overall invoice total.

The second OTTER invoice, in the amount of \$52,964 included two customers who received rebates in excess of \$5,000. The seventeen other customers received rebates at or below the \$5,000 cap. The total in excess of the cap sums to \$4,496 or 8.5% of the overall invoice total.

Recommendation

Of the two invoices reviewed, both contained customer rebates in excess of the Commission approved \$5,000 cap. The total error noted was \$8,943, representing 4.4% of the combined invoices. Audit requested clarification of the excess and the Company's understanding of the Commission's Orders relating to the caps. The Company indicated that emergency boiler replacements must be done if an audit reveals that the customer would have the heat disconnected if the replacement is not done. The Company further noted that the ENG and GSE franchise territories do not overlap, thus the sharing of rebate funding would involve a different utility.

Audit recommends that in instances such as the emergency boiler replacements, for which an excess rebate is paid by ENG, the Company should contact the electric company or municipality and request reimbursement.

Company Comment

The Company agrees with the Audit Staff's recommendations. The Company notes that it will be requesting in its 2015/2016 CORE program filing under Docket DE 14-216 to raise the gas utilities' Home Energy Assistance customer rebate cap from \$5,000 to \$8,000 to fully align with the electric utilities current Home Energy Assistance program guidelines.

Audit Response

Audit concurs with the Company Comment and reminds the Company that the \$8,943 should be excluded from the shareholder incentive calculation.