

Unitil Energy Systems, Inc.
Final Audit Report
DE 12-262
2013 CORE Program

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: August 25, 2014

AT (OFFICE): NHPUC

FROM: Anthony Leone, Examiner

SUBJECT: CORE Energy Programs DE 12-262

FINAL Audit Report

Unitil Energy Systems, Inc.

TO: Tom Frantz, 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 related to the CORE Energy Efficiency Program for the calendar year 2013. The four participating electric utilities, Unitil Energy Systems, Inc. (Unitil), Public Service of New Hampshire (PSNH), New Hampshire Electric Cooperative (NHEC), and Granite State Electric (GSE) and two gas utilities, Northern Utilities, Inc. (Northern) and Energy North filed a joint petition for the program year 2013. Each utility was audited individually.

Audit thanks Chad Dixon, Karen Daniell and the Energy Efficiency Group staff for their assistance during the audit process.

Program Summary

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

Residential – Income Qualified

Home Energy Assistance - weatherization program (HEA)

Residential – Non-Income Qualified

Energy Star Homes (ESH)

Home Performance with Energy Star (HPwES)

Energy Star Lighting (ESL)

Energy Star Appliance (ESA)

Commercial and Industrial

Large Business Energy Solutions Program

Small Business Energy Solutions Program

Educational Programs

In addition, Unital offered a Combined Heat and Power pilot program (CHP, Pilot) for the Commercial and Industrial customers only.

Program Updates for Calendar Year 2013

The Agreement, attachments and Order also included the following significant changes:

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

Significant Mid-Year Adjustments

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

July 29, 2013, Commission Order #25,555 approved Unital's CHP Pilot program (Pilot). The main intent of the Pilot is to encourage C&I customers to reduce demand for electricity while capturing waste energy for use in building conditioning or industrial processes, effectively using a customer's waste heat together with an electric generator. The Pilot was approved with an initial budget of \$100,000. Unital expected roughly \$25,000 to be spent in 2013 with the remaining funds to be spent in 2014.

Program Activity

2013 Carry Forward Balance

The reconciliation of program year activity to the general ledger year end posting was noted in the May 2014 Performance Incentive Filing (Filing). According to the filing for 2012, the ending balance was an over-collection of (\$103,841). In the Filing for 2013, the starting balance was an under-collection of \$81,740. Audit has included two columns in the table below with the column on the left utilizes the verified ending balance of 2012 and the column on the right utilizes the starting balance found in the Filing with the difference being found in the handling of the (cumulative) interest. Both tables have the same result however. **Audit Issue #1.**

Starting point is:	Over-Collected	Under-Collected
Carry-forward Balance 2012	\$ (103,481)	\$ 81,740
SBC Funding	\$ (2,223,743)	\$ (2,223,743)
FCM Revenue	\$ (200,192)	\$ (200,192)
RGGI Proceeds	\$ (712,289)	\$ (712,289)
2013 Cumulative Interest	\$ (19,959)	\$ (205,180)
Actual Collections	\$ (3,156,183)	\$ (3,341,404)
Program Expenses	\$ 2,295,199	\$ 2,295,199
Est. Performance Incentive	\$ 207,584	\$ 207,584
Actual Expenses	\$ 2,502,783	\$ 2,502,783
Carry-forward Balance 2013	\$ (756,881)	\$ (756,881)

The 2013 ending over-collection was verified to the following Energy Efficiency (EE) Residential and Commercial & Industrial General Ledger (GL) Balance Sheet accounts without exception. Numbers in “()” denote an over-collection by the Utility. As of the end of 2013, Unutil had over-collected \$(756,881) of rate payer funds. The 2013 ending balance included the 2012 true-up of \$(10,915.68).

GL Account #	2012	2013
10-20-00-00-173-13-01 Residential Non-Low Income	\$ (125,185)	\$ (347,184)
10-20-00-00-173-13-02 Residential Low Income	\$ (53,516)	\$ (162,864)
10-20-00-00-173-13-03 Commercial and Industrial	\$ 75,220	\$ (246,833)
10-20-00-00-173-13-05 Outdoor Lighting	\$ -	
Net Over-collection per General Ledger	\$ (103,481)	\$ (756,881)

The following table displays the amount of funds collected in excess of all expenses as accrued revenue. It should be noted that the over collection could not be attributed to any one particular funding source. The accrued amount combined with the over-collection from 2012 equals the new over-collection balance.

SBC

KWh sales were verified to the Capital and Seacoast divisions' reports as verified in Energy Assistance Program (EAP) Audit performed by the Commission and to the Accounting model provided by Unitil. SBC revenues were also verified to the GL accounts 10.29.21.44x.xx.

RGGI Auction Proceeds

Pursuant to House Bill 1490, passed into NH Law on June 23, 2012, a portion of the RGGI Auction Proceeds (Auction Proceeds) were to be combined with SBC Funded Energy Efficiency programs administered by the Core Electric Utilities. In July 2012 the Commission issued a supplemental order directing the Core Electric Utilities to submit proposals for the currently available funds, known as the 2012 RGGI Expansion is discussed later, and for the future Auction Proceeds. According to the proposed budget filed on September 17, 2012 the Core Electric Utilities anticipated \$6 Million of RGGI Auction Proceeds would become available to the Core Programs for 2013. According to PUC Business Office information, the portions of the four 2013 Quarterly Auction Proceeds that became available was \$6,454,446 resulting in \$723,202.13 being allocated to Unitil over the course of 2013. Due to the timing of the 4th Quarter Auction however, Unitil has stated that the 4th Quarter Proceeds of \$184,895.12 would be included in the 2014 program year budget. In its place, Unitil has included the "2012 carry over proceeds" in the amount of \$288,981 which was not distributed until November 2013. The 2012 carry over proceeds are related to the funds in Order #25,425. The new total of Proceeds that were recognized in 2013 was therefore \$826,888.59, of which \$115,000 was noted in the Agreement as an addition to the RGGI Revolving Loan Fund (RLF). The remaining amount of \$712,289 can be seen in several tables in this report as the RGGI Funding Proceeds for Unitil's 2013 Core program. The 2012 RGGI Expansion, a one-time payout of RGGI funds authorized by Order #25,425, is discussed later in this report as it must be accounted for separately. It should be noted that Audit clarified with UES about the amount of 2012 carry over proceeds of \$288,981 and that UES agreed it should be \$288,581 and that a true-up will be included in the 2014 model to adjust the Revenue figures.

Forward Capacity Market

UES reflects \$200,192 revenue less \$23,108 expenses for the net \$177,084 inclusion in funding of the CORE as directed by Commission Order. The FCM expenses were properly outlined in the final quarterly report schedule entitled NH CORE Energy Efficiency FCM Budget & Expenses (January 1- December 31, 2013). As was mentioned in the prior two audit reports, the FCM expenses were included in the shareholder incentive calculation. As of this time a decision has not been made of the proper procedure.

The FCM revenue was verified to the general ledger account 10-29-02-21-456-80.00 at \$200,192 and the FCM expenses were verified to the following general ledger accounts:

GL Account #: 10-29-02-21-908-					
80-01	Residential Internal Admin	\$ 2,192		80-04	C&I Internal Admin \$ 7,299
80-02	Residential Extrtnal Admin	\$ 1,905		80-05	C&I External Admin \$ 7,621
80-03	Residential Non-Admin	\$ 3,291		80-06	C&I Non-Admin \$ 800
	Total Residential	\$ 7,388			Total C&I \$ 15,720
	Total FCM Expenses:	\$ 23,108			

Interest

The CORE interest rate used is the Federal Reserve’s prime rate as of the first of the month for which interest is calculated. Audit verified the rate to the quarterly interest rate as set by the Federal Reserve at 3.25% for the entirety of 2013. The total interest reported for 2013 was net revenue of (\$19,959). Based on the Accounting Model and confirmed by Unitil, the current interest calculation does not include the prior month’s interest charge (interest is not compounding). All other utilities currently compound their interest. Unitil has stated that “in the interest of uniformity, the Company is open to a finding by the Commission that going forward, it should calculate interest based on the average SBC fund balance including interest”. **Audit Issue #1**

Riverwoods

Commission Order #25,458 identified a total of \$670,098 to be foregone from collection from ratepayers. Of that total, \$23,253 was specifically identified as Systems Benefit Charge (SBC) Energy Efficiency Revenue. Refer to the CORE DE 10-188 2011 audit report which identified \$23,253 as being deducted from the 2011 SBC revenue stream for further information.

Due to the timing of Order, UES recorded \$23,253 plus interest in February 2013, as a funding source for the 2013 program year. Audit has confirmed that this amount is included in the 2013 program year funding.

Program Expenses

Audit reviewed the quarterly reports as filed with the Commission and verified that the expenses in total for the calendar year agree with the Shareholder Incentive Package as well as the General Ledger accounts detailed in the tables below. The 2013 expenses have been divided into the following groups for ease of tracking: Residential, Commercial & Industrial and Other/shared. Additionally, each group was further broken down by expense class for greater transparency. Pictured below is a summary of those expenses incurred without the Performance Incentive. The figures as described agree with the figures found in the Shareholder Incentive Package filed with the Commission.

<u>Total Program Expenses</u>			
Residential	C&I	Other / shared	Program total
\$1,099,493	\$1,149,655	\$ 46,051	\$ 2,295,199

Residential Expenses – by GL Acct

2013 Residential Expenses in \$:				3rd Party		3rd Party		3rd Party		Reg &	Prog		Rebates
GL Acct #	Audits	Rebates	M&E	M&E	Marketing	Admin	General	Admin	Total by				as % of all
GL Name	10-29-02-...	41	40	31	30	21	14	13	10	Program			Expenses
Res Lighting	21-908-28		\$ 92,767	\$ 54	\$ 1,543	\$11,552	\$ 32,913	\$ 7,461	\$ 29,671	\$ 175,961			53%
Res Low Income	21-908-41	\$ 8,790	\$ 274,223		\$ 4,114		\$ 23,432	\$ 19,944	\$ 47,243	\$ 377,747			73%
Res New Const	21-908-47	\$ 6,808	\$ 6,975		\$ 2,057	\$ 728	\$ 1,617	\$ 9,948	\$ 26,948	\$ 55,080			13%
Res Products	21-908-40	\$ 151	\$ 170,749	\$ 134	\$ 2,314	\$36,160	\$ 48,114	\$ 11,191	\$ 26,412	\$ 295,224			58%
Res Retrofit	21-908-26	\$ 9,030	\$ 108,489	\$ 3,566	\$ 2,857	\$ 3,607	\$ 14,716	\$ 9,948	\$ 43,269	\$ 195,481			55%
		\$24,778	\$ 653,202	\$ 3,754	\$ 12,885	\$52,047	\$120,792	\$ 58,491	\$173,544	\$1,099,493			59%
Expenses as % of total:		2%	59%	0%	1%	5%	11%	5%	16%				100%

Residential Expenses – by 4th Qtr Core Utility Report

	Internal	External	Rebates	Internal				Total by	Rebates
Program Name	Admin	Admin	& Services	Impl.	Marketing	M & E	Program	Program	as % of all
Res Lighting	\$ 5,578	\$ 3,291	\$ 92,767	\$ 60,056	\$ 11,552	\$ 2,716	\$ 175,960	\$ 175,960	53%
Res Low Income	\$ 11,705	\$ 2,343	\$ 283,013	\$ 73,580		\$ 7,106	\$ 377,747	\$ 377,747	75%
Res New Const	\$ 6,177	\$ 162	\$ 13,783	\$ 30,683	\$ 728	\$ 3,549	\$ 55,081	\$ 55,081	25%
Res Products	\$ 6,558	\$ 4,811	\$ 170,899	\$ 72,668	\$ 36,160	\$ 4,127	\$ 295,224	\$ 295,224	58%
Res Retrofit	\$ 10,469	\$ 1,472	\$ 117,518	\$ 55,992	\$ 3,607	\$ 6,424	\$ 195,482	\$ 195,482	60%
	\$ 40,487	\$ 12,079	\$ 677,980	\$ 292,979	\$ 52,047	\$ 23,922	\$1,099,494	\$1,099,494	62%
Expenses as %:	4%	1%	62%	27%	5%	2%			100%

Commercial & Industrial Expenses – by GL Acct

2013 C&I Expenses in \$:				3rd Party		All	3rd Party	Reg & Gen	Prog		Rebates	
GL Acct #	Audits	Rebates	M&E	M&E	Mkting	Admin	& Eng Scvs	Admin	Total by		as % of all	
GL Name	10-29-02-...	41	40	31	30	21 & 20	14	13 & 11	10	Program	Expenses	
Large New Const.	21-908-33	\$ 1,683	\$ 110,947	\$ 1,627	\$ 3,390		\$ 19,687	\$ 13,678	\$ 39,697	\$ 190,708		58%
Large Retrofit	21-908-52	\$15,480	\$ 387,439	\$ 1,715	\$ 6,420		\$ 39,351	\$ 26,112	\$ 65,379	\$ 541,896		71%
Small New Const.	21-908-51		\$ 3,872	\$ 279	\$ 1,028		\$ 842	\$ 4,974	\$ 7,388	\$ 18,384		21%
Small Retro	21-908-31	\$17,000	\$ 310,590	\$ 1,427	\$ 4,371	\$4,638	\$ 6,054	\$ 21,730	\$ 32,858	\$ 398,668		78%
		\$34,163	\$ 812,847	\$ 5,048	\$15,209	\$4,638	\$ 65,933	\$ 66,494	\$145,323	\$1,149,656		71%
Expenses as % of total:		3%	71%	0%	1%	0%	6%	6%	13%			100%

Commercial & Industrial Expenses – by 4th Qtr Core Utility Report

	Internal	External	Rebates	Internal				Total by	Rebates
Program Name	Admin	Admin	& Services	Impl.	Marketing	M & E	Program	Program	as % of all
Large Bus. ES	\$ 24,434	\$ 5,904	\$ 515,548	\$167,598	\$ -	\$19,120	\$ 732,604	\$ 732,604	70%
Small Bus. ES	\$ 13,164	\$ 690	\$ 331,462	\$ 55,484	\$ 3,888	\$11,023	\$ 415,711	\$ 415,711	80%
Other C & I		\$ 292		\$ 2,622			\$ 2,914	\$ 2,914	
	\$ 37,598	\$ 6,594	\$ 847,010	\$223,082	\$ 3,888	\$30,143	\$1,151,229	\$1,151,229	74%
Expenses as %:	3%	1%	74%	19%	0%	3%			100%

Shared/Other Expenses – by GL Acct #

2013 Other /		Code	3rd Party	3rd Party	Res	C&I	ISO	
Shared Expenses		Training	Admin-C&I	Admin-Res	Education	Education	Admin	Total by
GL Name	GL Account #	28	26	26	16	15	01 -- 06	Program
Codes Education	10-29-02-21-908-43		\$ 2,288	\$ 14,147	\$ 3,238	\$ 626		\$ 20,299
ISO Admin	10-29-02-21-908-80						\$ 23,108	\$ 23,108
Codes Tng/Website	10-29-02-21-908-48	\$ 2,644						\$ 2,644
		\$ 2,644	\$ 2,288	\$ 14,147	\$ 3,238	\$ 626	\$ 23,108	\$ 46,051

Expense Test Summary

Audit requested and reviewed 22 invoices totaling \$572,367 or 25% of total expenses. Selected invoices are discussed below.

All Electric Third Party Administration--10-29-02-21-908-00-23

The documentation indicated that Unitil paid Northeast Energy Efficiency Partnerships (NEEP) \$5,833 for a combination of “2013 Statewide Strategic Sponsorship, 2013 Summit Bronze Sponsorship & 2013 DLC Member Service Fee.”

Residential Retrofit--10-29-02-21-908-26

The documentation indicated the vendor, Quality Insulation, performed retrofit work under the HPwES program for two clients. The vendor bill totaled \$6,594.98 and Unitil further broke down the cost between the Audit, Rebate and 3rd Party Administration expenses.

Residential Weatherization-Income Qualified--10-29-02-21-908

The documentation indicated Southern NH Services sought reimbursement for costs related to weatherizing homes. The reimbursement check was for \$43,170.11. The following expense codes were associated: 908-41-14-Third Party Administration of \$4,033.33; 908-41-40-Rebates of \$37,226.78; and 908-41-40-Audits of \$1,840.00. A similar pattern of Admin, Rebate and Audit expenses was seen in other invoices from Southern NH Services and other similar organizations.

Residential Lighting--10-29-02-21-908-28

The documentation indicated the vendor Energy Federation, Inc. performed fulfillment and processing work of CFL and LED rebates under the Lighting program for customers of Unitil during the month of January 2013. The vendor bill totaled \$2,560.88 and Unitil further broke down the cost between the Rebate (908-28-40) and 3rd Party Administration (908-28-14) expenses.

Small Commercial Retrofit--10-29-02-21-908-31

The documentation indicated the vendor, Reitze Electric, LLC replaced older inefficient lighting at the Latter Day Saints Church in Exeter, NH. The vendor bill totaled \$14,750 and Unitil rebated \$7,020, or 48% of the indicated cost, directly to the Church.

A second invoice reviewed was for Bovie Screen Process Co., Inc. The documents for this rebate indicated the vendor replaced various sets of lights at the facility. The total cost for project and other updates was listed as \$150,000 with the lights being \$30,000; which was paid for by a \$15,000 rebate and a \$15,000 RGGI Loan.

A third invoice reviewed was for K&G Restaurant. The documents for this rebate indicated the vendor replaced various lights inside and outside of the establishment. The total cost for the project was listed as \$65,000 with a rebate of \$32,500 or **50% of the cost**.

As found on page 40 of Attachment A of the Settlement Agreement per Order #25,462, a rebate amount of both 35% and 50% is mentioned as being available in the Small Business Energy Solutions Retrofit program. Audit Staff is requesting Commission Staff to determine and clarify for future Core Energy years, the correct rebate percentage available under the Small Business Energy Solutions Retrofit Program.

Large Commercial New Construction--10-29-02-21-908-33

The documentation indicated the vendor installed new, energy efficient lighting at the new Smuttynose Brewery in Hampton, NH. The incremental costs associated with the installation were documented as \$125,342.11 and the rebate was \$94,006.58, or 75% of the incremental costs reported.

A second invoice reviewed was for Phillips Exeter Academy. The documentation indicated the vendor installed new, energy efficient lighting and controls at the Lamont Health and Wellness Center. The incremental costs associated with the installation were documented as \$218,972.88 and the rebate was \$11,540, or 5% of the costs reported.

Large Commercial Retrofit—10-29-02-21-908-52-40

The documentation indicated Concord Hospital received a rebate as part of a multi-year HVAC upgrade including but not limited to heating and cooling systems. Total costs incurred for this portion of the project were \$1,134,200 and the rebate totaled \$191,985 or 17% of costs.

A second invoice reviewed was for NextEra Energy Seabrook Station. The documentation indicated NextEra received \$7,876.05 as a rebate for replacing an older ventilation system for a newer energy recovery ventilation system in a fitness room at Seabrook Station. The total cost was indicated was \$22,503 and the rebate was 35%.

Home Energy Assistance

Expenses related to the Home Energy Assistance (HEA) portion of the 2013 CORE were ordered to be “at least 15% of the SBC budget”. The total reported expenses relating to the HEA program were \$377,747 which represents 15% of the overall expenses including the Performance Incentive.

Program Expenses for HPwES & HEA (LI Weatherization)

As evidenced on page 33 in Attachment A of the Settlement Agreement approved by Order #25,462, in order to maintain consistent pricing of the improvements for both the HPwES and the HEA programs, any vendor or energy service provider who performs work must do so at

established statewide rates. These rates are established in a joint informal bidding process conducted every fall and Audit was informed that the result is an “all in” price the vendor would charge for the service being performed. Audit requested and received a copy of these rates in the form of a pricing sheet (Sheet). The Sheet was then compared to actual OTTER screenshots and an excel spreadsheet representing actual items used by a third party vendor (Vendor) as support for an invoice submitted to Unitil for a HPwES weatherization job. No exceptions were noted.

In addition to the pricing of services which determines the rebate, on the invoice submitted to Unitil through the statewide energy efficiency billing system, OTTER, the other column is titled “Admin Cost”. Audit requested and Unitil stated this column actually represents Implementation (Audit) and Vendor Administration (Incentive) costs, and that “In order to properly reflect implementation and administration costs, Company staff charges \$230 per job to the audit account (#10.29.02.21.908.26.41)... [and the] remaining costs (usually 10% of rebate) to the third-party administration account (#10.29.02.21.908.26.14). Audit also reviewed locations where only baseline measures are installed, as in light bulbs and aerators, and not insulation or air sealing measures and the Audit Fee was \$140 and no 10% Admin fee was noted. Unitil also stated “each of these charges [audit & admin cost] is automatically applied in OTTER and cannot be manipulated by the Community Action Agency”.

A similar set-up can be seen in the HPwES Program, where in one instance of one contract between Unitil and one particular vendor, section XI, “Payment to Contractor” states “...and an incentive calculated as 10% of the..cost of a job performed in accordance with this Agreement up to a maximum payment per job of \$550.” The contract further states that “for a \$9,000 Job (including the HPA and installation of energy efficiency and safety measures), the Contractor would receive \$550 from the Company for the HPA and \$3,450 for the customer rebate. The Customer co-pay would be \$5,000, to be paid directly to the Contractor.”

Performance Incentive for 2013

According to the Settlement Agreement, approved by the Commission by Order# 25,189, dated 12/30/2010, a performance incentive based on the actual expenditures, rather than budgeted expenditures, was authorized. The Order further requested that utilities “strive to complete their performance incentives by June 1 of the subsequent year.” UES provided their incentive calculation on May 15, 2014. The earned incentive noted on revised page 3 of the Filing dated 6/24/13 summed to \$150,888. The estimated incentive used on page 6 of the original Filing and noted several times in this report is \$207,584. Due to the timing of the filing, Unitil has stated that once the final figures have been calculated a True-Up / adjusting entry is performed the following year to account for the variance between the estimated and the actual earned figures.

According to Commission Order, the total on which the incentive calculation is based must be reduced by the non-electric expenses associated with the HPwES fuel blind program. The revised amount of non-electric program expense totaled \$113,069 which was correctly deducted from the incentive calculation.

Audit identified, as it has in the past, inclusion of the Forward Capacity Market expenses for purposes of calculating the shareholder incentive as an issue. The Company has continually stated its inclusion is a legitimate cost of the program and should be included in the performance incentive calculation. Audit has suggested that the Commission Staff determine the accuracy of inclusion or exclusion of the FCM expenses. To date the issue remains unresolved. It should be noted that not all utilities include the FCM expenses in their incentive cost figures.

Home Performance with Energy Star (HPwES)

The Settlement Agreement signed in December 2012 for the 2013/2014 CORE reiterates that “consistent with the authorization for the 2010 (fuel blind) pilot in Order No. 24,974, ...the rebate for all HPwES programs...will be capped at the lesser of 50% of the project expenditures or \$4,000...” with the exception the customer is a Gas and Electric customer which would allow up to 50% or \$8,000.

Of the total HPwES expenses verified to the general ledger and reported to the Commission, \$195,481, the calculated non-electric costs of \$113,069 was deducted from the HPwES total for incentive calculation purposes, in accordance with Commission Orders:

HPwES Rebates and Audits	\$117,518
Allocated Electric Expenses	<u>\$(4,449)</u>
Result = Non-electric costs	\$113,069 to remove from SHI calculation
Expended on Energy Audits and Rebates	\$117,518
Expended on Other HPwES Program Costs	<u>\$77,963</u>
Total HPwES Program Costs	\$195,481
Less Non-electric costs	<u>\$(113,069)</u>
Total HPwES costs included in SHI	\$82,412

RGGI Revolving Loan Fund (RLF)

On August 19, 2009, a \$7,646,020 grant identified as Re-CORE was approved by the Governor and Council which among other things established the Revolving Loan Funds administered by the Core Electric Utilities. Specifically, each utility initially received the following amount:

GSE	\$ 302,077
NHEC	\$ 200,000
PSNH	\$ 500,000
UES	\$ 725,000
Total:	\$1,727,077

Approved in the settlement Agreement covering the 2013/2014 CORE Programs, Unitil added \$115,000 to the available to loan balance. For additional information regarding the RGGI Re-CORE grant refer to the Final PUC Audit Report of the Re-CORE issued on June 24, 2011 or to the previous audit report.

The following grid represents the RGGI RLF, which at full funding was \$840,000. On a cumulative basis as of 12/31/13, \$761,368 had been loaned, \$213,935 had been repaid, and administrative costs (including a transfer of \$13,888 to PSNH) in the amount of \$14,656 resulted in \$277,911 available to lend. Each year can be seen independently by viewing the appropriate column. Audit requested clarification of the RLF available to lend as of 12/31/2013 and was provided with the following information:

Loan Activity	2009	2010	2011	2012	2013	Total
Grant Money received-RLF	\$189,503	\$ 535,497	\$ -		\$ 115,000	\$ 840,000
Consumer Loans (net of buydowns for 2013)	\$ -	\$(106,199)	\$(123,974)	\$(376,177)	\$(155,018)	\$(761,368)
Loan Repayment (net of defaults)	\$ -	\$ 5,410	\$ 39,451	\$ 66,318	\$ 102,756	\$ 213,935
Consumer Loan Admin Costs	\$ -	\$(10,183)	\$(18,361)	\$ 13,888	\$ -	\$(14,656)
Net Loan Activity per year (not cumulative)	\$189,503	\$ 424,525	\$(102,884)	\$(295,971)	\$ 62,738	\$ 277,911

The Grant Money received was verified to the Order approving the 2013/2014 Core Electric Programs and the following GL Accounts:

10-29-02-44-456-20-00	OTHER ELECTRIC REVENUE-GRANT FUNDING - R	\$ 65,000.00
10-29-02-44-456-22-00	OTHER ELECTRIC REVENUE-GRANT FUNDING - CI	\$ 50,000.00
		\$ 115,000.00

The Consumer Loans, net of buy-downs were verified to the following GL Accounts:

10-29-02-44-908-43-14	C&I RGGI RLF - LOAN - BUYDOWN	\$ 38,385.00
10-29-02-44-908-43-22	RES RGGI RLF - LOAN - BUYDOWN	\$ 116,633.46
		\$ 155,018.46

The loan repayments, net of defaults, were verified to the following GL Accounts:

10-29-02-44-456-00-01	LOAN PAYBACK - RGGI - RES	\$ 73,521
10-29-02-44-456-02-01	LOAN PAYBACK - RGGI - CI	\$ 29,235
		\$ 102,756

2012 RGGI Expansion

Discussed earlier, House Bill 1490 passed in June 2012 and in October 2012 the Commission passed Order #25,425 which instructed the electric utilities regarding the use of the currently available funds from the Greenhouse Gas Emission Reduction Fund and the allocation of 15% of the money for Low Income Home Energy Assistance (HEA). An incentive was not authorized for the HEA, while a flat 8% was authorized on the remaining programs. The monies approved must be tracked separately and therefore have different GL account numbers verified by Audit.

The Order outlined the budget as follows:

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

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

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

PSNH, acting as the lead utility, provided an invoice to the NH PUC for \$3,064,072 on 2/4/2013 which was distributed to the utilities based on the Combined Expenses identified in the budget above. Unitil received \$438,456.

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

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

The following grid represents the receipt and use of the 2012 RGGI Expansion funds. The funds were approved for use in 2012 but not received until 2013. A thorough review of the expense account summary (#908) noted no exceptions and corresponded to the information in Unitil's RGGI Shareholder Incentive Filing in May 2014.

Program Activity	2012	2013	Total
Grant Money received		\$(438,456)	\$(438,456)
Rebates & Incentives	\$ 66,210	\$ 380,725	\$ 446,935
Shared Savings Incentives		\$ 15,112	\$ 15,112
Total Program Activity	\$ 66,210	\$ (42,619)	\$ 23,591

Audit requested an explanation of the current balances and Unitil has provided the following response as of the end of 2013:

Concerning the \$(23,951) under collection total noted in the table “...the Company overcollected \$4,872 for the residential sector programs, undercollected \$445 for the low income sector programs, and undercollected \$12,905 from the commercial and industrial sector programs, for a total undercollection of \$8,478. The one-time payment that was provided to the Company on March 7, 2013 for delivery of these programs per the terms of Order 25,425 did not include the planned performance incentive of \$14,470. In its Annual Energy Efficiency Report, the Company calculated an earned performance incentive of \$70 from the residential Sector and \$15,042 from the commercial and industrial sector for a total of \$15,112. Adding the undercollection relating to performance incentive to the Company’s program-related undercollection brings the total RGGI 2012 undercollection to \$23,591.” **Audit Issue #2**

In reference to the above statement from Unitil, an “over collection” took place due to collecting more money from NH PUC than what was actually spent, there were no SBC funds collected from rate payers in regards to this program; under collections will work similar, but in an opposite manner to the over collection. The following table compares, by program, the actual spending vs. the planned spending.

Program	Budgeted	Actual	Variance
Residential Appliance	\$ 5,745.00	\$ 873.46	\$ (4,871.54)
Low Income Residential	\$ 257,584.72	\$ 258,030.15	\$ 445.43
Commercial & Industrial	\$ 175,126.04	\$ 188,030.91	\$ 12,904.87
Total	\$ 438,455.76	\$ 446,934.52	\$ 8,478.76

While it is true the initial payment received by Unitil in March 2013 did not include the originally approved Performance Incentive (Incentive), Unitil will need to request the Commission Staff to determine if they may collect an Incentive on the variance between what was allocated from the 2012 RGGI Expansion budget and what was actually spent. Further, Unitil will also need to request the Commission Staff to determine if they can reconcile the 2012 RGGI Expansion Budgeted vs. Actual Programs variance in spending with Core Electric Energy Efficiency (SBC) Funds or a different approved method.

Audit Issue #1

Interest Expense

Background

Commission Order # 25,462 authorized the continuation of the CORE programs to be administered by the CORE Utilities, and that interest be charged on any over or under collection of funds.

Issue

All other Core Electric Utilities and Northern Utilities, Inc. currently compound interest on the outstanding Core balances on a monthly basis.

Audit Recommendation

Audit recommends that Unutil include the current month's interest charge in the next months beginning balance.

Company Response

The Company has been calculating interest in this manner since Order DR 91-158 (circa 1992); however, as noted in its response to "OCA Record Request – Exhibit 25," from the March 10, 2010 hearing on Docket DE 09-170, the Company is open to a finding by the Commission that, going forward, it should calculate interest based on the average SBC fund balance including interest.

The Company will contact the Commission Staff to discuss the Audit Staff's recommendation. Subject to agreement by the Commission Staff, the Company's calculation of interest on the over or under collected balances will be updated in accordance with this recommendation.

Audit Comment

Audit agrees that the Company contact the Commission Staff to discuss a resolution.

Audit Issue #2

2012 RGGI Expansion Overspending

Background

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

Issue

As customary with the majority of Core Electric Programs a Utility may overspend any respective sector budget by no more than 5%. Within the C&I 2012 RGGI Expansion Budget Unitil spent more than 105% without notifying the Commission.

Audit Recommendation

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

Company Response

In the case of the 2012 RGGI funding, the Company inadvertently spent \$12,905 more than was budgeted for the C&I sector, or 7.4% more than that sector's budget, which was reported by the Company in its 2013 fourth quarter report to the Commission. The Company understands the notification requirement and will notify the Commission whenever spending for a specific sector is expected to exceed 5% of budget.

Program requirements for the RGGI 2012 funding for the C&I sector were identical to those of the CORE programs. As a corrective action, the Company will propose an adjustment to the Commission Staff to transfer the \$12,905 spent in excess of the budgeted RGGI 2012 funds to the 2014 CORE program; this adjustment will result in zero balances in all three RGGI 2012 sectors.

If the Commission Staff agrees with the Company's proposal, the Company will then request only the originally budgeted amount of RGGI 2012 performance incentive totaling \$14,470.

Audit Comment

Audit agrees that the Company contact the Commission Staff to discuss a resolution.