STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

FINANCIAL AUDIT REPORT FOR THE NINE MONTHS ENDED MARCH 31, 2015

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

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* Comment suggests legislative action may be required.

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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Public Utilities Commission (Commission or PUC) as of and for the nine months ended March 31, 2015.

Organization

The Public Utilities Commission is composed of three Commissioners appointed by the Governor and confirmed by the Executive Council to staggered six year terms so that one term expires every odd-numbered year. The Governor, with Executive Council approval, appoints one of the Commissioners as Chairman, who is the overall agency head. One Commissioner must be an attorney and at least one of the remaining Commissioners must have experience in engineering, economics, accounting or finance. The senior administrator of the Commission is the Executive Director and Secretary who oversees all administrative operations of the agency. The Commission is composed of the following: Legal Division, Administration Division, Consumer Affairs Division, Safety Division, Electric Division, Telecommunications Division, Gas and Water Division, Audit Division and Sustainable Energy Division.

Responsibilities

The Commission is vested with general jurisdiction over electric, telecommunications, natural gas, water, and sewer utilities as defined in RSA 362:2 for issues such as rates, quality of service, finance, accounting, and safety. It is the Commission's mission to ensure that customers of regulated utilities receive safe, adequate, and reliable service at just and reasonable rates.

In fiscal year 2015, the Commission exercised varying degrees of oversight over 300 utility and non-utility providers with gross revenues of approximately $2.7 billion. The Commission is authorized 70 full-time employees including the commissioners. The Office of Consumer Advocate, administratively attached to the Commission, is authorized five full-time employees and one part time employee. The Site Evaluation Committee (SEC), a nine member committee responsible for the review, approval, monitoring, and enforcement of compliance in the planning, siting, construction, and operation of energy facilities, is also administratively attached to the Commission; as well as the twenty-five member Energy Efficiency and Sustainable Energy Board (EESE) created to promote and coordinate energy efficiency, demand response, and sustainable energy programs in the State. The SEC and EESE were established by RSA 162-H:3 and RSA 125-O:5-a, respectively.

Funding

The financial activity of the Commission is accounted for in the Governmental and Fiduciary Funds of the State. The Commission's General Fund revenues and expenditures and financial activity in the Electric Assistance Program as of and for the nine months ended March 31, 2015 are shown in the financial section of this report.

Pursuant to RSA 363-A, the Commission and the Office of Consumer Advocate are funded primarily by an assessment on the utilities the Commission regulates and those non-utility entities that fall within the Commission's registration and enforcement responsibilities. While some entities are assessed based on revenue earned, certain entities are assessed a set dollar amount ("direct assessments"), and others are subject to a specific minimum amount ("minimum assessments").

In addition, approximately 70% of the Commission's Safety Division, which is responsible for enforcing pipeline safety, is federally funded. The Commission administers both the Energy Efficiency Fund (formerly the Greenhouse Gas Emissions Reduction Fund) and the Renewable Energy Fund. Both of these funds are non-lapsing, special funds. The Energy Efficiency Fund supports the Core energy efficiency programs offered by the electric and gas utilities, and provides rebates to default electric ratepayers. The Renewable Energy Fund supports energy efficiency and renewable energy initiatives in New Hampshire through competitive grants and rebates.

Electric Assistance Program

The New Hampshire Legislature authorized the Commission to develop an Electric Assistance Program (EAP) as part of electric utility deregulation. Under the program, a system benefits charge (SBC) is assessed on electric customers to fund public benefits related to the provision of electricity, including energy efficiency and low income bill paying assistance (EAP discount) programs. The SBC in effect during the nine months ended March 31, 2015 was 3.3 mills per kilowatt-hour (kWh) or $0.0033/kWh, with 1.5 mills/kWh or $0.0015/kWh going to the EAP and 1.8 mills/kWh or $0.0018/kWh going to energy efficiency programs. The EAP discount ranges from 9% to 77%, depending on the customer's gross household income and household size.

To be eligible for the program, customers must receive an electric bill from a regulated electric utility and have a gross household income that qualifies at the time of application.

The Commission reports the financial activity of the EAP in the Electric Assistance Program Utility Fund, a private-purpose trust fund.

Prior Audit

The most recent prior financial and compliance audit of the Commission was for the nine months ended March 31, 2003. The appendix to this report on page 41 contains a summary of the current status of the observations contained in that report. The prior audit report can be accessed from the Office of Legislative Budget Assistant website at the following web address:
http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the Commission as of and for the nine months ended March 31, 2015. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Commission and tested the Commission's compliance with certain provisions of applicable laws, rules, contracts, and grant agreements. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues,
- Expenditures, and
- Fiduciary Fund.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, and the financial statements of the Public Utilities Commission are contained in the report that follows.

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire Public Utilities Commission (Commission) which comprise the Statement of Revenues and Expenditures - General Fund, the Statement of Fiduciary Net Position - Electric Assistance Program Utility Fund, and the Statement of Changes in Fiduciary Net Position - Electric Assistance Program Utility Fund as of and for the nine months ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Public Utilities Commission's basic financial statements and have issued our report thereon dated February 18, 2016. Our report on the financial statements was modified as the Statement of Revenues and Expenditures – General Fund does not purport to and does not constitute a complete financial presentation of the Public Utilities Commission in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in Observations No. 1 through No. 7 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observation No. 8.

Commission's Responses To Findings

The Commission's responses to the findings identified in our audit are included with each reported finding. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

February 18, 2016

Internal Control Comments
Significant Deficiencies

Observation No. 1: Establish A Formal Risk Assessment Process

Observation:

The Commission reported it did not have a formal risk assessment process in place during the nine months ended March 31, 2015. According to the Commission, while there was no formal written risk assessment process in place, issues affecting the operation of the Commission, including identified risks, were regularly considered and discussed at weekly meetings of Division heads.

The lack of formal policies and procedures promoting the active review and consideration of risk places the Commission in a largely reactive mode where risks are not recognized in time to allow for efficient and effective avoidance or mitigation.

Management's assessment of and response to risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and where appropriate respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. An effective and documented risk assessment process should be a core element of management's planning activities and should be an ongoing activity.

Recommendation:

The Commission should establish a formal risk assessment process, supported by policies and procedures, for recognizing, evaluating, and responding to risks that could affect its ability to reach its objectives.

The Commission should regularly review its financial and operational activities for indicators of risk exposure, and establish and monitor controls that appropriately address those risks. Commission employees with particular areas of expertise and knowledge of Commission operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered.

Auditee Response:

We concur.

The Commission is in the process of developing policies and procedures for a formal risk assessment with a particular emphasis on fraud reporting and prevention. We expect to finalize a formal risk assessment process by June 2016.

Observation No. 2: Establish A Policy And Procedure To Ensure Timely Requests Are Made To Increase Grant Class Appropriations

Observation:

The Commission posted certain expenditures as negative revenues in order to make distributions to utilities in excess of appropriations.

The State received approximately $11.1 million from three Regional Greenhouse Gas Initiative (RGGI) auctions during the nine months ended March 31, 2015. The State accounting system reported $9.8 million of revenue during the same period, approximately $1.3 million less than the State's actual proceeds from the auctions. The understatement resulted from the Commission posting certain expenditures for electric service rebates and energy efficiency programs as negative revenues to the auction revenue account, thereby understating both revenues and expenditures in the State accounting system (NHFirst).

The Commission reported it does report total revenue received and total expenditures both in its monthly reconciliations and in its annual dedicated fund reports.

Recommendation:

The Commission should establish a policy and procedure to ensure it timely requests an increase in its grant class appropriations whenever auction proceeds exceed the budgeted amount in order to ensure all financial activity is accurately reflected in NHFirst.

Auditee Response:

We concur.

The Commission will timely submit a request to the Bureau of Accounts to increase its grant class appropriations whenever auction proceeds exceed the budgeted amount, effective immediately.

Observation No. 3: Document Utility Assessment Review

Observation:

The design of the Commission's utility assessment controls did not require employees performing the review and approval of the assessment to evidence their control activities. While it was reported the review and approval controls were applied during the fiscal year 2015 utility assessment process, the application of the controls was not documented.

In accordance with RSA 363-A, the Commission assesses its costs of regulation against the utilities it regulates on an annual fiscal year basis. The Commission Business Office has a written policy and procedure for the compilation and publication of the annual utility assessment. The procedures note where review and approval controls are to be applied during the process, however the procedures do not specifically direct employees involved in the process to document their performance of those control activities. The careful performance of the review and approval controls helps ensure the accuracy of the amounts assessed to the utilities.

It's important to note that during our review of the utility assessment calculations, supporting exhibits, and the published fiscal year 2015 List of Utility Assessments, we noted no material or otherwise significant issues with the amounts assessed. The total fiscal year 2015 assessment amount was approximately $8.5 million.

Recommendation:

The Commission should redesign its annual utility assessment review control to require the reviewer of the assessment to evidence their review and approval of the calculations and supporting exhibits used to arrive at the amounts assessed the utilities for the cost of regulation; and the publication of the List of Utility Assessments. Documentation of the control should clearly identify the successful completion of the review and approval of the assessment, and also establish that the individual performing that function is otherwise independent of the responsibility for the preparation of the assessment.

Auditee Response:

We concur.

Though no material or otherwise significant issues with the calculation of the utility assessment were noted, the Commission concurs that the approval process for the assessment should be documented more fully. As the Observation states, the Commission has a written policy and procedure that provides where "review and approval controls are to be applied." We will include evidence of review and approval by individuals who are not involved in the preparation of the assessment, commencing February 2016.

Observation No. 4: Establish Policies And Procedures To Support Reconciliation Controls

Observation:

The design of the Commission's accounting controls does not include documented policies and procedures for a monthly reconciliation of the internal records of the Commission to the revenues and expenditures recorded in the State's accounting system, NHFirst. While the Commission reports it would expect the preparers of the reconciliations to bring forward any issues detected through the reconciliations, there are no written policies and procedures directing employees in the preparation of the reconciliations, guidance on identifying and resolving issues that may become apparent from those reconciliations, or directing the performance of review and approval and monitoring controls over the reconciliations. It is important to note we found no issues during our review of the reconciliations.

Recommendation:

The Commission should complement its revenue and expenditure reconciliation procedures with documented policies and procedures for the performance of the reconciliations, and the review and approval control over those reconciliations. The review and approval control should address both the timely and complete performance of the reconciliation, and the resolution of any differences indicated by the reconciliation. The review and approval function should be separate from the preparation function, and the preparer and reviewer/approver should be clearly identified. Further, the Commission should establish a written policy and procedure for the reconciliation process to help ensure expectations are understood, to set the rules for the process and provide guidance, and to promote consistency in practice.

Auditee Response:

We concur.

In addition to a monthly reconciliation of the Detailed Transaction Register that covers all transactions posted to the Commission's appropriations, the Commission also reconciles on a monthly basis its internal records for special assessments, grant and rebate programs, and the Energy Efficiency and Renewable Energy dedicated funds. While noting that the Observation found no issues with the Commission's reconciliation activities, we agree that a written procedure for each of these monthly reconciliations will complement the Commission's current practices. We have begun to document the reconciliation process that is unique to each program and identify separate review and approval functions.

Observation No. 5: Review The Financial Reporting Of Utility-Administered Public Benefit Programs

Observation:

The financial statements of the Commission and State do not report the financial activity of the State's bill-paying assistance for low-income customers of regulated gas utilities and the Core energy-efficiency programs administered by the electric and gas utilities regulated by the Commission.

The Commission oversees, through approval of budgets and program terms, low-income bill-paying assistance programs and energy-efficiency programs that are administered by the electric and gas utilities. Those public-benefit programs are funded in part directly by the ratepayers (customers) through statutory-based charges and Commission-approved surcharges. The Commission reviews and monitors the programs based on periodic reports filed by the regulated utilities. The financial activity of the low-income bill-paying assistance program administered by the electric utilities (Electric Assistance Program) is included in the State's financial reporting while the similar program administered by the gas utilities is excluded from the State's financial reporting. The financial activity of the Core programs for the electric and gas utilities is not included in the State's financial reporting.

The Electric Assistance Program and the electric Core energy-efficiency programs are funded by the system benefit charge, a statutory-based charge on electric ratepayers. The electric Core energy-efficiency program also receives funding from a portion of the proceeds received from the Regional Greenhouse Gas Initiative (RGGI) and ISO-NE Forward Capacity Market auctions. Total funding available to the electric Core program for calendar year 2015 including balances brought forward from the prior year was approximately $28 million. The gas Core programs, both for low-income bill-paying assistance and energy-efficiency programs, are funded by a portion of the Commission-approved Local Distribution Adjustment Charge, a surcharge on regulated gas utility ratepayers. Total funding available to the gas Core program for calendar year 2015 was approximately $7.3 million.

As the financing and operation of the low-income bill-paying assistance and energy-efficiency programs are established in or by the Commission orders, in the case of the electric Core program funded by a statutory-based charge on customers, and the objectives of the programs are primarily for the public benefit and not the corporate purpose (the assumed corporate purpose is to provide a return to stockholders and not to provide public assistance), it would appear that the programs are governmental in nature and should be accounted for and reported in the State's financial statements. Any exclusion of State-mandated activities or programs funded by the citizenry via State-required charges should be deliberate, supported by accounting and financial reporting standards, and appropriately documented.

Recommendation:

The Commission should review the nature and operation of its low-income bill-paying assistance and energy-efficiency programs with the Department of Administrative Services to determine whether those programs should be included in the State's financial reporting.

Auditee Response:

We do not concur.

The Commission agrees to review this issue with the Department of Administrative Services; however, we do not concur with the Audit Division's reasoning.

The Audit Division based its recommendation on the assumption that low-income bill-paying assistance and energy-efficiency programs are "public assistance" programs that do not provide a return to stockholders. Based upon this assumption, the Audit Division concluded that low income bill-paying assistance and energy-efficiency programs are government programs.

First, the programs are not "public." The programs, although regulated, are neither administered by the government nor made available to the general public. Private utilities offer these programs only to their customers.

Second, the programs benefit stockholders in several ways. Rates approved by the Commission allow stockholders the opportunity to recover their costs and earn a return on their investment, but they do not guarantee that the stockholders will actually achieve that rate of return. Utility companies must manage their businesses prudently by, among other things, maintaining good relationships with their customers and employing good billing and collection practices. Bill-payment programs enhance a utility's ability to work with payment-troubled customers. This reduces costs associated with bad debt and collection of unpaid bills. Energy efficiency measures also help to reduce such costs in a number of ways. Most directly, energy efficiency reduces a customer's usage, thus making the customer's electricity bills more manageable. Energy efficiency measures also reduce demand. In the short term, lower demand reduces the need for utilities to purchase energy during peak (costly) periods. In longer terms, energy conservation may delay or eliminate the need for distribution upgrades.

New Hampshire utilities have a history of offering discounted rates and imposing surcharges or higher rates overall to aid low-income and elderly customers. Such programs are integral to balancing the private, economic relationships between shareholders and ratepayers, and among classes of ratepayers. Such programs may be established by utilities subject to the Commission's traditional regulatory oversight role. Compare RSA 378:10 (2009) (utilities must treat all ratepayers equally) with RSA 378:11 (2009) (utilities may establish charges on a sliding scale with Commission approval when just and reasonable to do so).

In summary, because low-income bill-paying and energy efficiency programs are private and not governmental in nature, it would be inappropriate to include such programs in the State's financial reporting.

LBA Rejoinder:

It is not clear the programs are private in nature. As stated in the Commission's annual report on the results and effectiveness of the system benefits charge, "[t]he SBC is assessed on all electric customers to fund **public benefits** [emphasis added] related to the provision of electricity." There is strong basis for the programs to be recognized as governmental in nature, with the utilities acting in essence as agents of the State by collecting the State-mandated charge and administering the Commission-approved programs. We recommend the State consider whether that financial activity should be recorded and reported in the financial systems of the State.

Observation No. 6: Periodically Advise And Remind Associated Individuals To File Required Statements Of Financial Interests

Observation:

Certain individuals associated with the Commission who appear to be required to file Statements of Financial Interests pursuant to RSA 15-A did not file those statements during the audit period.

The Office of Consumer Advocate (OCA) is administratively attached to the Commission. The head of the OCA, the Consumer Advocate, did not file a 2015 Statement of Financial Interests. The absent filing was attributed to unfamiliarity with the filing requirement. Filing was required for the agency head under RSA 15-A:3, I (d).

The Energy Efficiency and Sustainable Energy Board is administratively attached to the Commission. Based on a membership list as of July 23, 2015, nineteen of the twenty-five board members did not file a 2015 Statement of Financial Interests. Filings, for the nineteen members that did not file, appear to be required under the following: one member was an agency head required to file under RSA 15-A:3, I (d); four members were State agency head designees and were required to file under RSA 15-A:3, I (e) for any public official designated by an agency head; and 14 members were persons outside State government and were required to file under RSA 15-A:3, I (h) for those individuals working on behalf of a board who are not employed by or otherwise working under contract for the State.

Non-compliance with RSA 15-A increases the risk that conflicts of interest may exist and not be disclosed. Additionally, under RSA 15-A:6, no person required to file a statement of financial interests shall be eligible to serve in his or her appointed capacity prior to filing a statement. Pursuant to RSA 15-A:7, "[a]ny person who knowingly fails to comply with the provisions of this chapter or knowingly files a false statement shall be guilty of a misdemeanor."

Recommendation:

The Commission should periodically advise and remind required employees and members of associated boards of their responsibility to file timely Statements of Financial Interests, pursuant to RSA 15-A.

Auditee Response:

We concur.

The Observation notes that a number of individuals associated with entities that are administratively attached to the Public Utilities Commission did not file a Statement of Financial Interests pursuant to RSA 15-A. The Commission will advise members of its administratively attached agencies and boards of their responsibility to file a Statement of Financial Interests at the same time that it reminds its own employees of that obligation, in December of each year.

Observation No. 7: Department Of Administrative Services Should Establish Financial Reporting Framework To Assist Agencies

Observation:

The assistance provided by the Department of Administrative Services (DAS) to the Commission in the preparation of financial statements for the audit did not result in financial statements that were consistent with generally accepted accounting principles. The financial statements provided for the audit did not include a balance sheet and management's discussion and analysis of the financial statements.

RSA 21-I:8, II (c) was amended effective August 2, 2014 directing the Department of Administrative Services, Division of Accounting Services, to "[cooperate] with the office of legislative budget assistant by assisting, as necessary, any state department, board, institution, commission, or agency, in the preparation of financial statements in a manner consistent with generally accepted accounting principles when such entity is subject to an audit performed by the audit division of the office of legislative budget assistant pursuant to RSA 14:31-a, I."

The audit of the Commission was the first financial audit of an agency initiated subsequent to the amendment to RSA 21-I:8, II (c).

In light of the new law, meetings between the Office of Legislative Budget Assistant (LBAO), DAS, and Commission were held early in the audit to clarify the assistance that would be provided to the Commission in preparing draft financial statements for the audit. It was expected that DAS' efforts in assisting the Commission, while difficult, would provide a framework that could be used for following audits.

As initially discussed, DAS would assist the Commission in preparing a full financial statement presentation of the Commission for the audit. This presentation would include general fund financial statements including a balance sheet, a statement of revenues and expenditures and changes in fund balance, fiduciary fund financial statements, notes to the financial statements, required supplementary information consisting of management's discussion and analysis and a budget to actual schedule, and other supplementary information that might be applicable.

Throughout the audit's early fieldwork period, there were a number of meetings and discussions about the preparation of the financial statements. The Commission business office appeared committed to the process and reported to be in regular contact with DAS. However, despite early indications of progress and an extended period of time made available, no real progress was achieved and the financial presentation as initially discussed was not prepared. In the end, the Commission was left to do the best it could in preparing a limited set of financial statements, notes, and other information for the audit, with assistance from the auditors, whose involvement was limited by the need to remain independent of the preparation of the statements being audited.

Recommendation:

The Department of Administrative Services should establish a framework to be used to assist a State department, board, institution, commission, or agency, in the preparation of financial statements in a manner consistent with generally accepted accounting principles, when such entity is subject to an audit performed by the Audit Division of the Office of Legislative Budget Assistant pursuant to RSA 14:31-a, I. The framework should promote the efficient preparation of financial statements and related information that would be comprehensive, and consistently prepared and presented by State entities under audit.

Department Of Administrative Services Response:

We concur.

The additional responsibilities added to the Bureau of Financial Reporting within the Division of Accounting Services as a result of the amendments to RSA 21-I:8, II (c) effective in August of

2014 (SB 222 in the 2014 session) did not come with additional staffing resources to perform those responsibilities. Also during fiscal year 2015, the Department of Administrative Services experienced turnover in several key financial positions, two of which remained vacant for an extended period of time due to the extremely low response of qualified candidates to the recruitment for accounting positions. This loss of knowledge and resources caused the Division of Accounting Services to be further limited in its ability to perform even several of its core functions in a timely manner. Accordingly, the division was not able to fully perform the new duties required under SB 222, at the level described in the above recommendation.

The framework referred to in the observation will require a substantial effort to implement. Further collaboration between the Department of Administrative Services and the audit division within the Office of Legislative Budget Assistant will also be necessary to finalize the content and structure of that framework. With the currently funded positions within the Bureau of Financial Reporting filled, the Bureau will do its best to begin development of the framework. However, while the division agrees that it would be desirable to do so, it is unlikely that the division will be in a position to further assist any audited agency without the additional resources to accomplish this goal. In addition, during the development of the framework and as part of the upcoming budget process, the Division of Accounting Services will assess the recent additions to its list of responsibilities and request a level of staffing that is necessary to adequately perform its mandated tasks.

Compliance Comment
State Compliance

Observation No. 8: Include The Electric Assistance Program In The State Operating Budget

Observation:

The Commission and State have not complied with the statutory requirement to budget certain funds collected pursuant to electric utility restructuring orders, i.e. the Electric Assistance Program (EAP). The EAP provides eligible electric utility customers assistance with paying their monthly electric bills. The EAP is funded by a portion of the system benefits charge authorized by RSA 374-F:3, VI and RSA 374-F:4, VIII (c).

Pursuant to RSA 6:12-b, "[o]n request of the public utilities commission, the state treasurer shall maintain custody over funds collected by order of the public utilities commission consisting of only that portion of the system benefits charge directly attributable to programs for low income customers as described in RSA 374-F:4, VIII(c). …For each biennium [after fiscal years 2002 and 2003], appropriations and expenditures of such funds shall be made through the biennial operating budget."

The State Treasury has historically maintained only that portion of the system benefits charge directly attributable to the EAP forwarded by the utilities to the Commission as revenues in excess of the monthly program needs. The balance in the fund held by the State Treasury was used to supplement the program in months when monthly revenues did not cover program needs.

The Commission and State have not included the operation of the EAP in the State's biennial operating budget, counter to RSA 6:12-b, or accounted for the EAP in the State's accounting system. Prior to fiscal year 2015, the Commission and State reported only the EAP financial activity processed through the State Treasury fund in a private-purpose trust fund in the State's Comprehensive Annual Financial Report (CAFR). In this report the EAP financial balances and activity are reported in total, combining balances and activity occurring at the utilities and at the State Treasury.

Recommendation:

The Commission should include the EAP in the biennial operating budget as required by RSA 6:12-b. If the Commission determines including the EAP in the budget is not of benefit to the Commission or State, the Commission should seek to have the statute appropriately amended.

The Commission should work with the Department of Administrative Services to ensure all balances and activities of the EAP are reported in the State CAFR.

Auditee Response:

We do not concur.

It is the Commission's opinion that the LBA Audit Division misinterpreted RSA 6:12-b when the Division concluded that the statute requires the Commission to include the Electric Assistance Program in the biennial operating budget.

RSA 6:12-b provides:

> On request of the public utilities commission, the state treasurer shall maintain custody over funds collected by order of the public utilities commission consisting of only that portion of the system benefits charge directly attributable to programs for low income customers as described in RSA 374-F:4, VIII(c). … For each biennium [after fiscal years 2002 and 2003], appropriations and expenditures of such funds shall be made through the biennial operating budget.

The plain wording of this statute permits, but does not require, the Commission to request that the state treasurer take custody over that portion of the system benefits charge ("SBC") directly attributable to programs for low income customers. If the Commission were to make such a request, then a number of obligations would ensue. The state treasurer would be obligated to take custody of those funds requested by the Commission, to keep those funds separate from any other funds, and to administer those funds as directed by the Commission. Appropriations and expenditures would then be made through the biennial budgeting process. The key, however, is that all of those obligations would follow from a Commission request.

The Commission has never requested that the state treasurer take custody of the full portion of the system benefits charge attributable to the EAP. Because the Commission never made such a request, there is no statutory obligation to place the EAP in the biennial budget. The Commission's interpretation is not only consistent with the plain wording of the statute, it matches the fundamental design of submitting only funds in excess of program needs to the state treasurer. That interpretation has been considered by three entities outside of the Commission. First, it was vetted by the Joint Legislative Fiscal Committee in 2001. Second, the LBA Audit Division conducted audits of the Commission in 2003 and 2012, and identified no issues with the Commission's procedures under RSA 6:12-b. Third, in 2004, the Office of Attorney General opined that the Commission had fully discharged its statutory obligations under RSA 6:12-b.

In addition to the above, the Commission has concerns about whether it would be appropriate to include the operating cost of the EAP in the Commission's biennial operating budget. Although the Commission designed the EAP, at this time, the only Commission involvement in the EAP is that it monitors the EAP, and aids in fiscal management and auditing. The Commission does not administer the daily activities of that program. Nor does the Commission incur any incremental costs in performing its limited role. The Commission does not receive payment from the EAP, and no funds flow through the Commission to accomplish the program's objectives.

The EAP is administered through activities conducted jointly by the electric utilities, the Community Action Agencies (CAA), and the Office of Energy and Planning (OEP). The electric utilities contract with the CAAs to provide customer education, intake services, certification and re-certification of eligibility, discount tier determination, and removal of ineligible customers. The utilities, in turn, provide the CAAs with support in the form of educational materials, customer service, legal services, and IT support. The Community Action Program Belknap-Merrimack Counties, Inc. acts as the program administrator and in that capacity compiles the CAAs' budgets, invoices the utilities, allocates the administrative revenues to the respective CAAs, and prepares weekly enrollment reports for Staff, the Advisory Board members, as well as performing annual compliance reviews of the other CAAs. The utilities bill and collect the SBC, apply the EAP discounts to the bills of eligible customers, deduct authorized costs, and remit the balance to the state treasurer's office monthly. The state treasurer holds these monies in a private purpose trust fund and disburses them to pay costs in accordance with the program's design. OEP monitors, evaluates, and audits the EAP and participates on the EAP advisory board.

Finally, the Commission believes including the EAP in the biennial operating budget could harm the beneficiaries of EAP-funded programs by diverting dollars from programs to administrative overhead. Because part of the Commission's statutory charge was to design a program "that targets assistance and has high operating efficiency, so as to maximize the benefits that go to the intended beneficiaries of the low income program," RSA 369-B:1, XIII, the Commission believes that the current process best fulfills the legislature's intent.

LBA Rejoinder:

A portion of the EAP funds are deposited with the State Treasurer. The fact that the majority of the funds are transacted directly from the utilities to the CAAs could be considered more a matter of cash flow efficiency than an intended separation of the program from the State's budgeting and accounting systems.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Hampshire Public Utilities Commission which comprise the Statement of Revenues and Expenditures - General Fund, the Statement of Fiduciary Net Position - Electric Assistance Program Utility Fund, and the Statement of Changes in Fiduciary Net Position - Electric Assistance Program Utility Fund as of and for the nine months ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Public Utilities Commission's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis For Qualified Opinion On The General Fund

As discussed in Note 1, the Statement of Revenues and Expenditures - General Fund does not purport to and does not constitute a complete financial presentation of the Public Utilities Commission in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the Statement of Revenues and Expenditures - General Fund presents fairly, in all material respects, the respective revenues and expenditures of the Public Utilities Commission's portion of the State of New Hampshire's General Fund for the nine months ended March 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the Statement of Fiduciary Net Position - Electric Assistance Program Utility Fund and the Statement of Changes in Fiduciary Net Position – Electric Assistance Program Utility Fund present fairly the fiduciary net position of the Public Utilities Commission and the changes in fiduciary net position as of March 31, 2015 and for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements were prepared for audit purposes. As discussed in Note 1, the financial statements referred to above do not purport to, and do not, present fairly the financial activity of the State of New Hampshire as of March 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budget to Actual Schedule on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary And Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Utilities Commission's financial statements. The Introductory Section, Combining Schedule of Revenues and Expenditures - General Fund, and Schedule of Expenditures of Federal Awards of this report are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining Schedule of Revenues and Expenditures - General Fund and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Revenues and Expenditures - General Fund and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section was prepared by the auditors and therefore is not subject to the auditor's opinion.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2016 on our consideration of the Public Utilities Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Utilities Commission's internal control over financial reporting and compliance.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

February 18, 2016

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2015

Revenues		
General Assessments	$	5,442,019
Special Assessments		461,093
Other Revenue		113,341
Federal Grants		463,656
RGGI, Inc. Auction Proceeds		11,137,962
Alternative Compliance Payments		17,625,559
Total Revenues		**35,243,630**
Expenditures		
General Regulatory Costs		
Salaries And Benefits		5,301,842
Retirement Health		191,260
Current Expenses		29,901
Telecommunications		36,034
Organizational Dues		52,078
Equipment		5,103
Subscriptions		43,141
Travel		45,902
Consultants/Litigation		60,783
Other		14,228
Interagency		
Information Technology		260,309
Rent (Including Utilities)		221,024
Statewide Cost Allocation Plan		48,482
Employee Assistance		2,400
Attorney General		154,844
Environmental Services		183,443
Total General Regulatory Costs		6,650,774
Other Costs		
Legislative Directives		45,553
Energy Efficiency/Renewable Initiatives		15,899,998
Dig Safe Fines Transfer		98,342
Special Consultant Costs		461,093
Site Evaluation Committee		1,965
Total Other Costs		16,506,951
Total Expenditures		**23,157,725**
Excess (Deficiency) Of Revenues		
Over (Under) Expenditures	**$**	**12,085,905**

The accompanying notes are an integral part of this financial statement.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

STATEMENT OF FIDUCIARY NET POSITION
ELECTRIC ASSISTANCE PROGRAM UTILITY FUND
MARCH 31, 2015

Assets	
Cash And Cash Equivalents	$ 2,494,925
Due From Utilities	34,123
Total Assets	**2,529,048**
Liabilities	
Due To Utilities	347,895
Total Liabilities	**347,895**
Net Position Held In Trust For Benefits	**$ 2,181,153**

The accompanying notes are an integral part of this financial statement.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ELECTRIC ASSISTANCE PROGRAM UTILITY FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2015

Additions	
Contributions:	
System Benefit Charge	$ 12,432,089
Total Contributions	12,432,089
Interest On Reserve	907
Interest On Fund Balance	205
Total Additions	**12,433,201**
Deductions	
Program Distributions	13,503,010
Total Deductions	**13,503,010**
Change In Net Position	**(1,069,809)**
Net Position Held In Trust For Benefits	
Net Position - July 1, 2014	3,250,962
Net Position - March 31, 2015	**$ 2,181,153**

The accompanying notes are an integral part of this financial statement.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of New Hampshire (the State) Public Utilities Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Public Utilities Commission (Commission) is a department of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Commission, including the administratively attached Office of Consumer Advocate and Site Evaluation Committee, and the balances and activity of the Electric Assistance Program Utility Fund.

The financial activity of the Commission is accounted for and reported in the General and Fiduciary Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Commission, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Commission cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position or fund balance of the Commission in the General Fund or the change in fund balance in the General Fund. Likewise, the State CAFR reports governmental activities for the State as a whole in the State's government-wide financial statements. The Commission accounts for only a small portion of the State's governmental activities and the governmental activities related to the Commission cannot be determined. Accordingly, the accompanying governmental fund financial statement is not intended to show a governmental activities presentation of the Commission's financial activities. The accompanying governmental fund financial statement is intended to show a fund presentation of the Commission's revenues and expenditures in the Governmental Funds.

B. Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds.

C. Measurement Focus, Basis Of Accounting, And Financial Statement Presentation

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after yearend.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including, compensated absences, other post-employment benefits, pollution remediation obligations, and claims and judgments, are recorded only when payment is due.

The Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Financial Statement Presentation

The State of New Hampshire and the Commission use funds to report on its financial position and the results of their operations. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Commission reports its financial activity in the funds described below.

Governmental Fund:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund. The General Fund financial statement prepared by the Commission includes the Office of the Commissioner, Gas Pipeline Safety, Greenhouse Gas, Renewable Energy Fund, Consumer Advocate, and Site Evaluation Committee accounting units.

Fiduciary Fund:

Private Purpose Trust Fund: report resources of all trust arrangements in which principal and income benefit individuals, private organizations, or other governments. The Private Purpose

Trust Fund financial statements prepared by the Commission report the Electric Assistance Program Utility Fund.

Reporting Period

The accompanying Public Utilities Commission financial statements are presented as of March 31, 2015, and for the nine months then ended.

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "unrestricted" (general purpose) or "restricted." Unrestricted revenues are credited directly to the appropriate fund balance upon recording in the State's accounting system. Pursuant to the State's operating budget, unrestricted or general purpose revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency's authorization to expend funds.

Restricted revenues are either by State law or by outside restriction (e.g. federal grants), available only for specified purposes and are credited to the agency's accounting unit to which the restricted revenue is budgeted upon recording in the State's accounting system. Restricted revenues recorded by an agency are direct sources of funding for budgeted agency operations (appropriations).

Unused restricted revenues at year end are either lapsed or generally recorded as a committed or assigned fund balance. When both unrestricted (general purpose) and restricted funds are available, it is the State's policy to use restricted revenues first.

The Commission's program revenues include: 1) assessments and charges for services provided, 2) operating grants, application and registration fees, and 3) payments received pursuant to the Electric Renewable Portfolio Standard and the Regional Greenhouse Gas Initiative.

Pursuant to RSA 363-A, the Commission is funded primarily by an assessment on the utilities it regulates. The assessment is calculated by using the gross New Hampshire utility revenue of all utilities and allocating the budget estimate of the Commission and the Office of Consumer Advocate to each utility in direct proportion as the revenues relate to the total utility revenues as a whole. Certain entities that are not public utilities, but fall within the Commission's registration and enforcement responsibilities are either assessed a set dollar amount or subject to a specified minimum amount. A more detailed description of the various assessments is included in Note 2. In addition, approximately 70% of the Commission's Safety Division, which is responsible for enforcing pipeline safety, is federally funded.

In 2007, the legislature established renewable portfolio standards (RPS) that require providers of electricity to meet specified percentages of their supply through renewable generation. If providers cannot obtain renewable energy certificates to meet the required percentages, they must make alternative compliance payments (ACPs) to the Renewable Energy Fund, a non-lapsing, dedicated fund. ACP revenue fluctuates from year to year depending on the price and availability of renewable energy certificates in the regional energy market. Approximately 96% of the fund is budgeted as directed by the legislature to support renewable energy initiatives through rebates and competitive grants.

In 2008, the legislature established the state's Carbon Dioxide Emissions Budget Trading Program in accordance with the Regional Greenhouse Gas Initiative (RGGI). RGGI is the regional cap and trade program aimed at reducing carbon dioxide emissions in the electric power sector across ten participating states in the northeast. New Hampshire emissions allowances are sold at quarterly auctions and the proceeds fund the Energy Efficiency Fund. Revenues from allowance auctions are primarily directed to energy efficiency measures intended directly or indirectly, to reduce regional electricity demand and, thereby, CO_2 emissions. In 2012, legislation further amended RSA 125-O:23 by replacing the Greenhouse Gas Emissions Reduction Fund with the Energy Efficiency Fund and directed the Commissions to rebate auction proceeds in excess of the threshold price of $1 per allowance to electric service customers. The remainder of the proceeds, less administrative costs, is transferred to the utility administered "Core" energy efficiency programs. Further legislative action in 2014 set aside 15% of auction proceeds for low-income "Core" efficiency programs and directed the utilities to set aside $2 million of auction proceeds for municipal and local government energy efficiency projects. The remainder is to be allocated to "all fuels, comprehensive energy efficiency programs" selected though a competitive bid process conducted by the Commission.

In 2014, the legislature modified RSA 162-H:3, VII to restructure the membership and duties of the Site Evaluation Committee (SEC). The legislation, among other things, attached the SEC administratively to the Commission and authorized a transfer of $500,000 from the Renewable Energy Fund for operating costs. Similar to the Office of the Consumer Advocate, as an administratively attached agency, the SEC's budget is submitted along with the Commission's but its costs are not associated with the Commission's operations. Revenue for the variable costs associated with a proceeding such as compensation to public members and reimbursement to state agencies for time and expenses is generated through application and filing fees paid by energy facility developers. Appropriations from the General Fund pay for all other operating costs of the SEC such as a full-time administrator, leased office space and supplies. In 2015, 162-H:21 was further amended to allow for additional transfers from the Renewable Energy Fund in the event of a revenue shortfall. Any amounts transferred for such shortfall but not expended during a biennium lapse back to the Renewable Energy Fund at the end of the biennium.

In the governmental fund financial statements, expenditures are reported by character.

E. Cash Equivalents And Investments

Cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the Public Utilities Commission. Investments are reported at fair value.

F. Receivables

In the governmental fund financial statements, receivables are primarily for accruals that are received by the Public Utilities Commission within 60 days after period-end.

G. Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded.

H. Budget Control And Reporting

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget for State agencies, including the Commission, is prepared principally on a modified cash basis and adopted for the governmental funds with the exception of the Capital Projects Fund and certain proprietary funds. Fiduciary funds are not budgeted.

In addition to the enacted biennial operating budget, State departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the departmental level.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State’s financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will generally lapse to assigned or unassigned fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as restricted, committed, or assigned fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year.

Contracts, special consultant costs, and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the expenditure is recorded against the encumbrance and the encumbrance is adjusted for the remaining liability. At March 31, 2015, the Commission’s unexpended encumbrances in the General Fund were $2.1 million.

Budget to Actual Comparisons and additional budgetary information are included as Supplementary Information.

I. Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

J. Intra-fund Activity

The effect of intra-fund activity (transfers among accounting units) has been eliminated from the Statement of Revenues and Expenditures - General Fund to avoid distortion/inflation of revenues and expenditures.

NOTE 2 - ASSESSMENTS

An assessment is established by RSA 363-A to recover the Commission's costs associated with regulating the public utilities and the entities that fall within the Commission's registration and enforcement responsibilities. The amounts assessed are budget amounts adjusted for the actual amounts collected over/under the budgeted amounts in the prior year. The assessment is calculated for those utilities and entities supporting the Office of the Commissioner and Consumer Advocate and for the utilities and entities supporting the Pipeline Safety program. There are three types of assessments - direct, minimum, and revenue based. Direct are assessments with a fixed amount by entity type and are charged to Telecommunications Carriers, Energy Competitive Suppliers, and Aggregators. Minimum are assessments charged to entities that do not meet a revenue basis established by the Commission and include some Water, Sewer, Voice over Internet Protocol, and Excepted Local Exchange Carrier entities. Revenue-based are assessments charged to all other entities that fall within the Commission's registration and enforcement responsibilities and are proportioned based on annual revenues.

Additionally, RSA 365:37 and 365:38 allow the Commission to assess the expense of investigations and rate proceedings, known as special consultant costs, directly against the utilities for which the services were performed.

NOTE 3 - CASH

The State Treasurer maintains the Electric Assistance Program (EAP) Utility Funds in an interest bearing checking account.

Deposits

The following statutory requirements and State Treasury policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the State Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

All deposits at FDIC-insured depository institutions were insured by the FDIC up to the standard maximum amount of $250,000 for each deposit insurance ownership category.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

Of the $2,494,925 cash balance in the Electric Assistance Program (EAP) Utility Fund account at March 31, 2015, $1,994,925 is collateralized and held in the State's name. The remaining $500,000 was held by the electric utilities as reserves. The bank balance and carrying amount, which represents the balance per the State's records were the same.

NOTE 4 - FIDUCIARY FUNDS - ELECTRIC ASSISTANCE PROGRAM UTILITY FUND

The Electric Assistance Program (EAP) was developed by the Commission to respond to the Legislature's call for low-income assistance programs as part of electric restructuring. Under RSA 369-B:1, the Commission is directed to design low-income programs that target assistance and have high operating efficiency to maximize the benefits to the intended beneficiaries of the low-income electric assistance program. Accordingly, the Commission issued orders approving a tiered discount program to provide income-eligible customers with discounts on their electric bills. The program began October 1, 2002. The financial activity of the EAP is reported in the Electric Assistance Program Utility Fund.

NOTE 5 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.667%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested prior to January 1, 2012 and five years for members not vested on January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. All covered Commission employees are members of Group I.

Group I members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011).

All covered Public Utilities Commission employees are members of Group I.

Members may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for certain members.

The New Hampshire Retirement System issues a publicly available financial report that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at http://www.nhrs.org.

Funding Policy

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2015, by statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The Commission funds 100% of the employer cost for all of the Commission employees enrolled in the Plan.

The Commission's normal contribution rate was 10.51% of the gross payroll for the nine months ended March 31, 2015. The Commission's normal contributions for that period were $363,485.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care, and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of State service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health plan (Plan), which is the State's self-insurance internal service fund implemented in October 2003 for active State employees and retirees. The Plan funds the cost of medical claims by charging actuarially determined working rates to State agencies for participating employees, retirees, and eligible spouses. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees.

During the nine months ended March 31, 2015, the Commission paid for the full cost of health insurance benefits for the retired employees and spouses on a pay-as-you-go basis. The cost of the health benefits for retired Commission employees and spouses is a budgeted amount and is paid from an appropriation made to the Risk Management division of the New Hampshire Department of Administrative Services. The Commission reimburses the Risk Management division for its share of post-employment health care benefits. The amount reimbursed for the nine months ended March 31, 2015 totaled $191,260.

The Commission's Medical Subsidy normal contribution rate during the nine months ended March 31, 2015 was 1.62% of the covered payroll for its Group I employees. The Public Utilities Commission's contributions for the Medical Subsidy for the nine months ended March 31, 2015 were $56,027.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
BUDGET TO ACTUAL SCHEDULE – GENERAL FUND (Unaudited)
FOR THE NINE MONTHS ENDED MARCH 31, 2015

	Budgeted Amounts		Actual Amounts	Favorable/ (Unfavorable)
Revenues	**Original**	**Final**	**(Budgetary Basis)**	**Variance - Final**
General Assessments	$ 8,646,351	$ 8,668,001	$ 5,587,947	$ (3,080,054)
Special Assessments	600,613	1,083,042	412,237	(670,805)
Special Assessment Liquidations		(101,144)		101,144
Federal Grants	420,228	483,773	294,690	(189,083)
Other Revenue			13,034	13,034
RGGI, Inc Auction Proceeds	9,773,677	9,773,677	11,137,962	1,364,285
Alternative Compliance Payments	7,840,634	12,840,634	1,732,095	(11,108,539)
Balance Forward	8,694,485	8,694,485	18,984,713	10,290,228
Total Revenues	**$ 35,975,988**	**$ 41,442,468**	**$ 38,162,678**	**$ (3,279,790)**
Expenditures				
General Regulatory Costs				
Salaries And Benefits	$ 7,917,528	$ 7,962,895	$ 5,144,027	$ 2,818,868
Retirement Health	226,846	226,846	191,260	35,586
Current Expenses	86,228	82,297	32,477	49,820
Telecommunications	59,722	61,335	36,275	25,060
Non-State Rental And Repairs	21,428	21,428	14,493	6,935
Organizational Dues	48,750	53,750	49,579	4,171
Equipment	16,854	31,679	5,878	25,801
Consultants/Litigation	251,520	301,520	90,651	210,869
Subscriptions	63,422	65,422	46,396	19,026
Training	1,800	4,500	2,859	1,641
Travel	82,700	104,350	45,948	58,402
Interagency				
Information Technology	616,678	616,678	260,311	356,367
Rent (Including Utilities)	364,919	364,919	221,024	143,895
Statewide Cost Allocation Plan	47,701	49,027	48,482	545
Employee Assistance	2,400	2,400	4,800	(2,400)
Safety	19,154	19,154		19,154
Audit Fund Set Aside	407	722	482	240
Attorney General	206,458	206,458	154,844	51,614
Environmental Services	300,343	300,343	183,443	116,900
Grants	15,952,673	20,808,333	5,649,648	15,158,685
Core Programs	9,451,837	9,451,837	11,020,596	(1,568,759)
Other	23,938	23,938		23,938
Total General Regulatory Costs	$ 35,763,306	$ 40,759,831	$ 23,203,473	$ 17,556,358
Grant Encumbrances			1,482,001	(1,482,001)
Special Consultant Costs	600,613	941,316	382,572	558,744
Special Assessment Encumbrances			558,744	(558,744)
NDFC - Non-Consultant Costs		40,583	32,149	8,434
Total Expenditures	**$ 36,363,919**	**$ 41,741,730**	**$ 25,658,939**	**$ 16,082,791**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**$ (387,931)**	**$ (299,262)**	**$ 12,503,739**	**$ 12,803,001**

The accompanying note is an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund (Unaudited)
For The Nine Months Ended March 31, 2015

Note 1 - General Budget Policies

The Commission's biennial budget is prepared principally on a modified cash basis and adopted for governmental and proprietary funds. The "actual" results column of the Budget to Actual Schedule is presented on a" budgetary basis" to provide a meaningful comparison to budget.

The budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Executive Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The actual amount represents actual expenditures incurred plus the total of current year encumbrances outstanding as of March 31, 2015. The outstanding encumbrances equaled:

8100- Office of the Commissioner	General Regulatory Costs	$ 5,600
	Special Assessments	529,069
8110 – Greenhouse Gas	Grants	850,909
8115 – Renewable Energy Fund	Grants	631,092
8120 – Consumer Advocate	General Regulatory Costs	22,628
	Special Assessments	29,675
Total		$ 2,068,973

The variance column on the Budget to Actual highlights differences between the final budget and the actual revenues and expenditures. For revenues, these variances are caused by actual revenue exceeding budget, generating a favorable variance, or actual being less than budget, generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year, and unfavorable variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When statements are presented at an interim date, a date other than June 30 fiscal year end, the variance reflects the difference between the budget period amount, twelve months in the case of the General Fund, and a partial year's actual revenue and expenditures. Thus, for the nine-month financial statements dated March 31, 2015, unfavorable variances in the General Fund revenues are expected to be collected in the twelve-month period. Similarly, favorable expenditure variances are expected as nine months of expenditures are compared to the anticipated expenditures of the twelve-month budget period.

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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES – GENERAL FUND
NINE MONTHS ENDED MARCH 31, 2015

	Office Of Commissioner	Gas Pipe-Line Carriers	Greenhouse Gas
Revenues			
General Assessments	$ 4,960,221	$ 25,244	$ -0-
Special Assessments	449,563	-0-	-0-
Intra-Agency	388,423	-0-	-0-
Other Revenue	111,376	-0-	-0-
Federal Grants	-0-	463,656	-0-
Regional Greenhouse Gas Initiative Auction Proceeds	-0-	-0-	11,137,962
Alternative Compliance Payments	-0-	-0-	-0-
Total Revenues	**5,909,583**	**488,900**	**11,137,962**
Expenditures			
General Regulatory Costs			
Salaries And Benefits	4,504,403	456,870	-0-
Retirement Health	191,260	-0-	-0-
Current Expenses	24,686	2,518	-0-
Intra-Agency Transfers	-0-	-0-	3,975
Telecommunications	29,803	3,248	81
Organizational Dues	33,729	350	-0-
Equipment	354	4,749	-0-
Subscriptions	37,492	343	-0-
Travel	22,959	19,787	-0-
Consultants/Litigation	-0-	-0-	-0-
Other	10,696	466	-0-
Interagency			
Information Technology	210,480	19,437	660
Rent (Including Utilities)	182,963	15,008	597
Statewide Cost Allocation	37,382	3,000	120
Employee Assistance	1,952	160	6
Attorney General	125,934	10,328	403
Environmental Services	-0-	-0-	179,132
Total General Regulatory Costs	5,414,093	536,264	184,974
Other Costs			
Legislative Directives	-0-	-0-	-0-
Energy Efficiency/Renewable Initiatives	-0-	-0-	11,170,293
Dig Safe Fines Transfer	98,342	-0-	-0-
Special Consultant Costs	449,563	-0-	-0-
Site Evaluation Committee	-0-	-0-	-0-
Total Other Costs	547,905	-0-	11,170,293
Total Expenditures	**5,961,998**	**536,264**	**11,355,267**
Excess (Deficiency) Of Revenues			
Over (Under) Expenditures	**$ (52,415)**	**$ (47,364)**	**$ (217,305)**

See accompanying independent auditor’s report.

Renewable Energy Fund	Consumer Advocate	Site Evaluation	Combined Total
$ -0-	$ 456,554	$ -0-	$ 5,442,019
-0-	11,530	-0-	461,093
-0-	-0-	-0-	388,423
-0-	-0-	1,965	113,341
-0-	-0-	-0-	463,656
-0-	-0-	-0-	11,137,962
17,625,559	-0-	-0-	17,625,559
17,625,559	**468,084**	**1,965**	**35,632,053**
-0-	340,569	-0-	5,301,842
-0-	-0-	-0-	191,260
1,913	784	-0-	29,901
384,448	-0-	-0-	388,423
1,236	1,666	-0-	36,034
15,000	2,999	-0-	52,078
-0-	-0-	-0-	5,103
-0-	5,306	-0-	43,141
1,086	2,070	-0-	45,902
3,198	57,585	-0-	60,783
-0-	1,101	1,965	14,228
12,497	17,235	-0-	260,309
11,405	11,051	-0-	221,024
2,280	5,700	-0-	48,482
122	160	-0-	2,400
7,851	10,328	-0-	154,844
4,311	-0-	-0-	183,443
445,347	456,554	1,965	7,039,197
45,553	-0-	-0-	45,553
4,729,705	-0-	-0-	15,899,998
-0-	-0-	-0-	98,342
-0-	11,530	-0-	461,093
1,965	-0-	-0-	1,965
4,777,223	11,530	-0-	16,506,951
5,222,570	**468,084**	**1,965**	**23,546,148**
$ 12,402,989	**$ -0-**	**$ -0-**	**$ 12,085,905**

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 2015

Federal Catalog Number	Federal Agency/Program	Expenditures	
U.S. Department of Transportaion, Pipeline and Hazardous Materials Safety Administr			
20.721	PHMSA Pipeline Safety Program One Call Grant	$	39,489
20.720	State Damage Prevention Program Grants		7,396
20.700	Pipeline Safety Program State Base Grant		478,068
	Total	**$**	**524,953**

See accompanying independent auditor’s report.

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of February 18, 2016 of the current status of the observations and other issues and concerns contained in the audit report of the Public Utilities Commission for the nine months ended March 31, 2003. That report can be accessed at, and printed from the Office of Legislative Budget Assistant website:
http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx.

	Status		
Internal Control Comments			
Reportable Conditions			
1. Policies, Procedures, And Controls Over Utility Assessment Calculations Should Be Improved *(See Current Observation No. 3)*	●	●	○
2. Equipment Inventory Procedures Should Be Improved	●	●	●
3. Procedures To Account For Special Assessments Should Be Improved	●	●	●
4. Reimbursement Of Federal Funds Should Be Requested When Available	●	●	●
5. Revenue Collection Procedures For Dig Safe Fines Should Be Improved	●	●	●
State Compliance Comments			
6. Current Assessment Procedures Should Be Reviewed To Ensure Compliance With Statutes	●	●	●
7. Deposits Should Be Made More Timely	●	●	●
Management Issues Comments			
8. Procedures And Controls Over The Electric Assistance Program Should Be Strengthened	●	●	●
9. Disaster Recovery Plan Should Be Updated	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	8
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	0
Unresolved	○	○	○	0

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